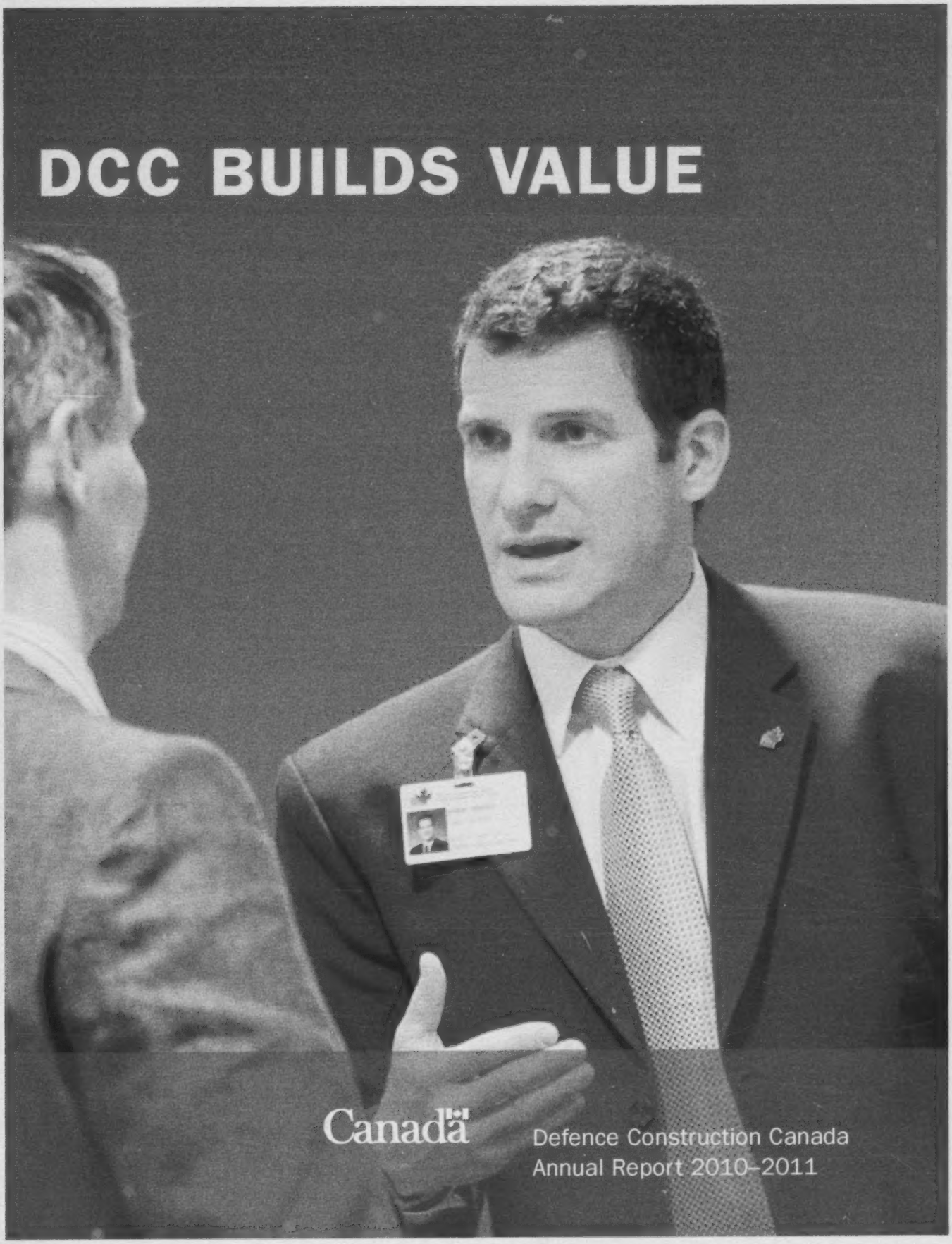

DCC BUILDS VALUE
Canada
Defence Construction Canada
Annual Report 2010–2011

CORPORATE PROFILE

Defence Construction (1951) Limited (operating as Defence Construction Canada or DCC) is a Crown corporation that provides innovative and cost-effective contracting, construction management, infrastructure and environmental services for the Department of National Defence (DND), and the Canadian Forces (CF) as required for the defence of Canada. From project needs planning through to building decommissioning, our work covers a broad spectrum of activities. DCC's resources are divided among five service lines.

CONSTRUCTION SERVICES
This is DCC's longest-standing service line. The Construction Services team supports the creation, renovation and maintenance of facilities for DND's infrastructure and environmental program.

CONTRACT SERVICES
The Contract Services team oversees the procurement of goods and professional, construction and maintenance services to fulfill Canada's domestic and international defence infrastructure needs.

ENVIRONMENTAL SERVICES
Environmental Services helps DND meet environmental performance targets, comply with regulatory requirements, and manage due diligence and risk.

PROJECT AND PROGRAM MANAGEMENT SERVICES
The Project and Program Management Services line advises DND on matters such as building requirements, program planning, and schedule and document control.

REAL PROPERTY MANAGEMENT SERVICES
From needs planning to facility decommissioning, the Real Property Management Services team ensures DND's real property assets are managed efficiently throughout their life cycles.

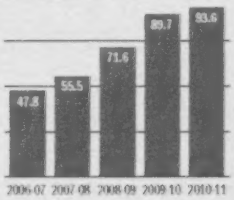
PERFORMANCE HIGHLIGHTS

CONTRACT EXPENDITURES BY REGION – 2010–11
(in millions of dollars)

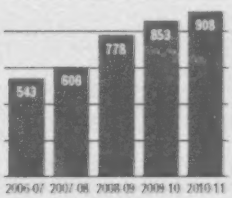
Region	Construction Services and Goods	Professional Services	Total
Atlantic	134.0	18.9	152.9
National Capital	98.3	17.8	116.1
Ontario	285.1	27.2	312.3
Quebec	65.1	10.0	75.1
Western	119.1	24.1	143.2
Deployed Operations	16.7	–	16.7
Total	**718.3**	**98.0**	**816.3**

The $16.7 million expenditure listed above for deployed operations is paid by DND but managed by DCC. In addition to the expenditures shown in this chart, DCC also made expenditures under the public-private partnership (P3) contract for the Communications Security Establishment Canada long-term accommodation project (CSEC LTAP). This contract totals $4.6 billion over 34 years, with a construction value of approximately $867 million.

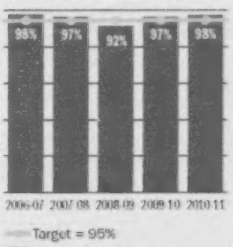
Services revenue
(in millions of dollars)



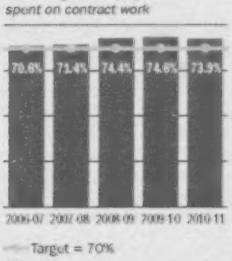
Growth
Number of employees



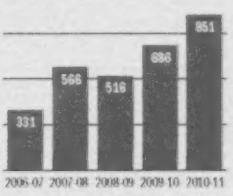
Client satisfaction



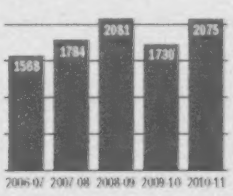
Utilization rate
Percentage of employee hours spent on contract work



Value of contracts awarded
(in millions of dollars)



Number of contracts awarded



In addition to the value listed in the graph, DCC had planned or phased construction contract changes in the amount of $108 million in fiscal 2010–11. DCC also awarded the $4.6 billion P3 contract for the CSEC LTAP mentioned under the contract expenditures footnote.

60 YEARS ANS
DCC | CDC

www.dcc-cdc.gc.ca

Cover: Robert Presser, Chair of the DCC Board of Directors at the 2011 Annual Public Meeting.

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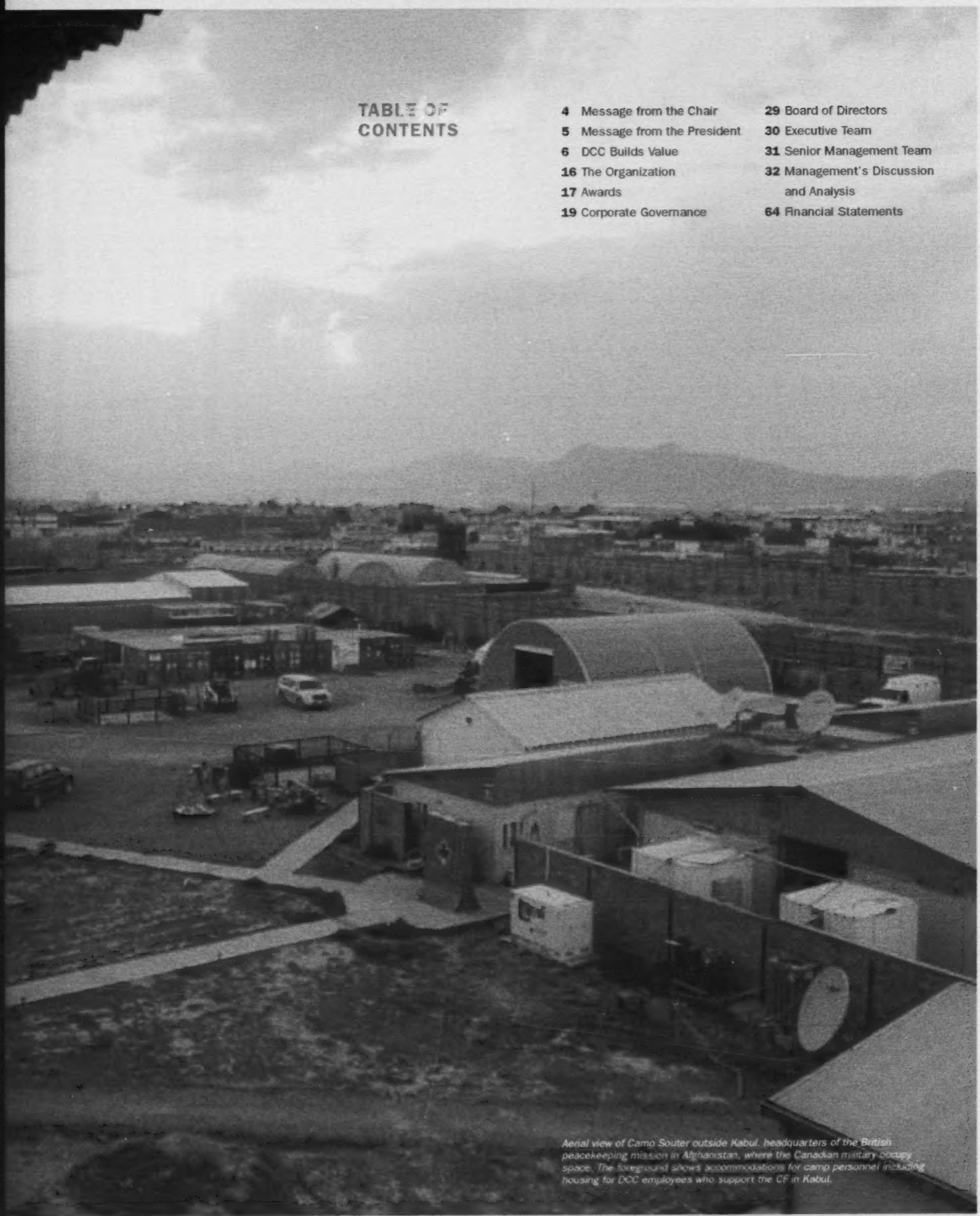


Aerial view of Camp Souter outside Kabul, headquarters of the British peacekeeping mission in Afghanistan, where the Canadian military occupy space. The foreground shows accommodations for camp personnel including housing for DCC employees who support the CF in Kabul.

Aerial rendering of Communications Security Establishment Canada's long-term accommodation project scheduled for completion in 2015.

DCC BUILDS VALUE

Although DCC is the contracting authority responsible for Canada's defence infrastructure projects, our work to commission infrastructure is a small part of our identity. In everything it does, DCC is committed to delivering value to DND/CF and the Government of Canada.

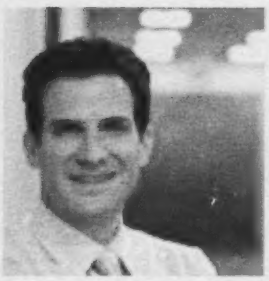
> We are energetic collaborators who work with our Client-Partner to help achieve their particular needs;

> We are skilled leaders who forge strong ties with industry to deliver exceptional projects; and

> We are proud stewards of public resources who support national public policy goals.

Collaboration, leadership and stewardship—just three of the many ways in which DCC builds value for DND/CF and the Government of Canada.

MESSAGE FROM THE CHAIR



Last year marked an important change for Defence Construction Canada (DCC). For the first time, we managed the procurement of a complex and highly detailed public-private partnership contract for the Communications Security Establishment Canada. This exercise demonstrated that we can bring expertise, efficiencies and value for money to the broader government community. It also proved our ability to transform DCC's service offerings to suit new conditions.

Transformation has always been material to DCC's work. As DND's needs and processes develop, we adapt to suit. This notion will only ring truer in the coming years. Through its *Canada First* Defence Strategy, the Government of Canada has committed to modernizing the infrastructure that supports the Canadian Forces. As this occurs, infrastructure requirements will evolve. DCC's value lies in part in helping DND develop facilities that meet emerging needs.

DCC's value also lies in delivering sound fiscal management. Year after year, our people consistently procure infrastructure projects at competitive prices. Corporately, the Canadian Institute of Chartered Accountants has recognized DCC for the completeness and quality of our financial reporting statements. We have also successfully implemented the increased transparency requirements mandated by the Treasury Board of Canada Secretariat. All government activity can profit from such responsible management, and DCC is proud to support the Government of Canada in generating value for taxpayers' money.

This year, DCC celebrates its 60th anniversary. We arrive at this important occasion at the zenith of our expertise. Never before has the total value of our contracts been higher or have we employed as many professionals. We are known across government as an entity that provides exceptional services and value for money. Our reach has never been greater.

I would like to congratulate our President, James Paul, for the excellent work he has done to raise DCC's profile among our people, our industry partners and the Department of National Defence. James has enjoyed a swift and successful integration into the DCC culture, and he is a tremendous asset to our Corporation. I would also like to thank my fellow Board members for so ably meeting their mandate last year without a full slate of directors. I look forward to our work together in the challenging and exciting times ahead.

Robert Presser
Chair of the Board of Directors

MESSAGE FROM THE PRESIDENT

In travelling across Canada and overseas in Afghanistan to visit project sites and meet the men and women who serve DCC, I am struck by the extent to which our Corporation is involved in the business of building relationships. Everything we do is founded on the notion of building strong partnerships with the Department of National Defence and the Canadian Forces (DND/CF), with industry, among our own teams and with the Government of Canada.

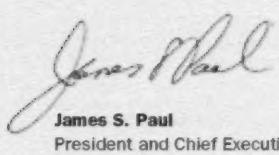
DCC is fully committed to enhancing the connection we share with our Client-Partner. Last year, we moved forward on two important initiatives that will increase our collaboration with DND/CF. We opened a new joint program management office in which integrated staff from DND and DCC work side by side to manage extensive construction programs, and we teamed with the Directorate for Construction Project Delivery to develop new joint performance indicators that will significantly improve our ability to deliver projects.

Supporting our efforts are the industry partners with whom DCC works every day. DCC continues to strengthen these connections by being actively engaged in associations, conferences and committees that help their members realize and promote best practices in public sector procurement.

DCC's personnel play a vital role in building relationships not only with our Client-Partner and industry, but also among our own teams. The ties that bind in this Corporation are strong and DCC is committed to making them stronger. In 2010–11, we enacted a plan to update all employees on our progress against strategic initiatives, we conducted a leadership session for 50 of our middle-level managers, and we allocated 5% of the Corporation's annual salary cost to training and development for all employees. Our employees are our most valuable asset and DCC is dedicated to giving them the tools they need to serve our Client-Partner with skill and vision.

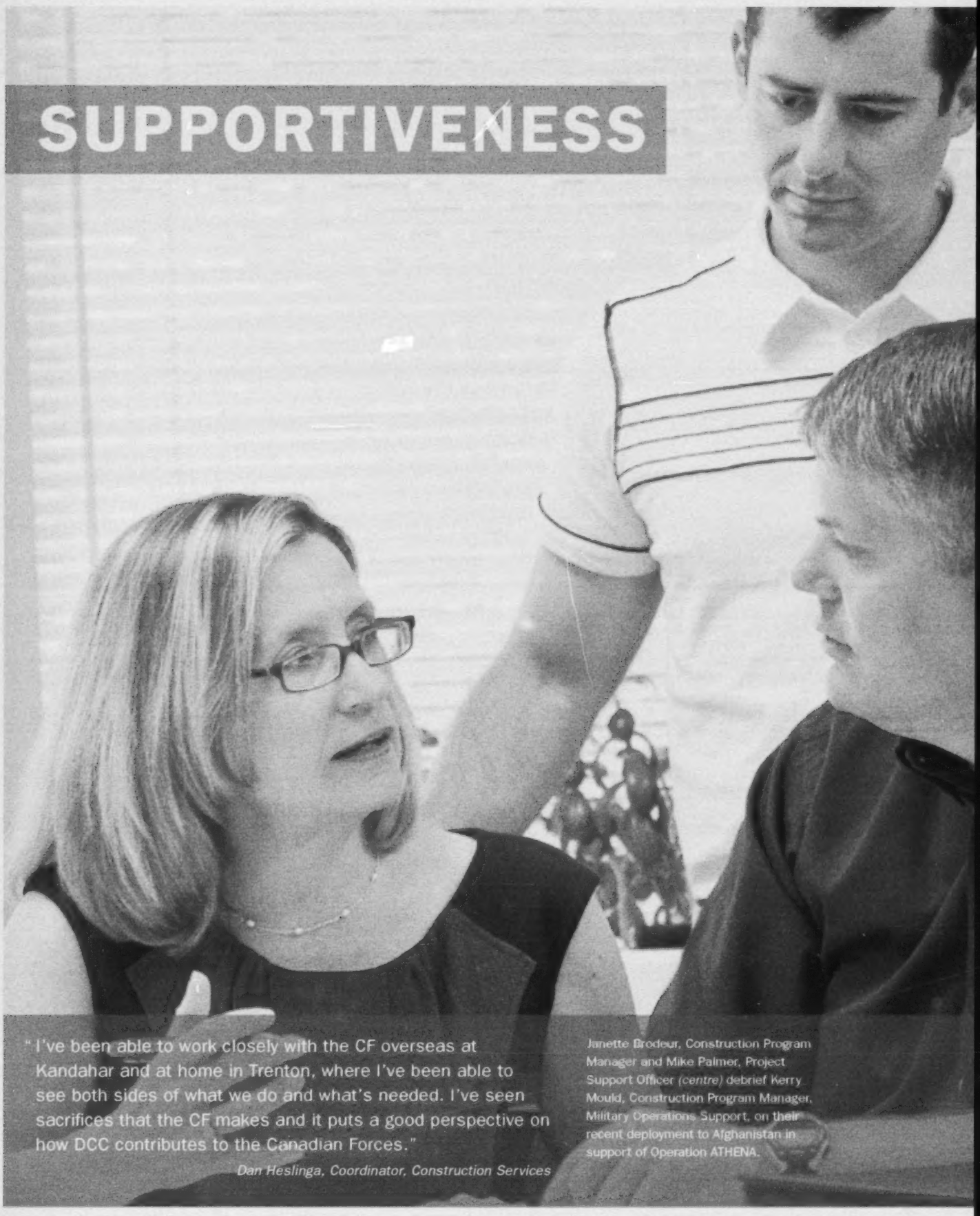
The successful relationships DCC builds are perhaps most evident in the volume of projects the Corporation delivers. Last year, DCC awarded the largest construction program in its history. We delivered a project budget that was 21% greater than the previous year's and that included the three largest projects we have ever awarded. We did this while controlling expenditures, observing directives given to us by the Treasury Board of Canada Secretariat, and increasing our overall cost to our Client-Partner by only 4.4%. In all it does, DCC is focused on delivering value for money to DND/CF and the Government of Canada.

This year, we celebrate our 60th anniversary. Looking forward, DCC will continue to be a dynamic, nimble and responsive organization that achieves real value for Canada and builds exceptional relationships with government, with DND/CF, industry, our employees and the Government of Canada.



James S. Paul
President and Chief Executive Officer

SUPPORTIVENESS



"I've been able to work closely with the CF overseas at Kandahar and at home in Trenton, where I've been able to see both sides of what we do and what's needed. I've seen sacrifices that the CF makes and it puts a good perspective on how DCC contributes to the Canadian Forces."

Dan Heslinga, Coordinator, Construction Services

Janette Brodeur, Construction Program Manager and Mike Palmer, Project Support Officer *(centre)* debrief Kerry Mould, Construction Program Manager, Military Operations Support, on their recent deployment to Afghanistan in support of Operation ATHENA.

SLTC-A: A STUDY IN SUPPORT

Designed to international standards and using construction techniques familiar to Afghans, SLTC-A features a lecture training facility, two barracks blocks and a dining hall. DCC's personnel have been involved in the procurement and delivery of this unique training institution since the outset of the project. Every step of the way, DCC's professionals have recognized the importance of their work: supporting two major objectives of the Government of Canada in Afghanistan, and helping local labourers develop skills and expertise they can use to better their own lives.

Pictured here are the Minister of National Defence, Peter MacKay (left), Peter Garieri, DCC Coordinator, Construction Services, and the Chief of the Defence Staff, General Walter Natynczyk at the site of the SLTC-A in Kabul.

STAFF AND LANGUAGE TRAINING CENTRE – AFGHANISTAN

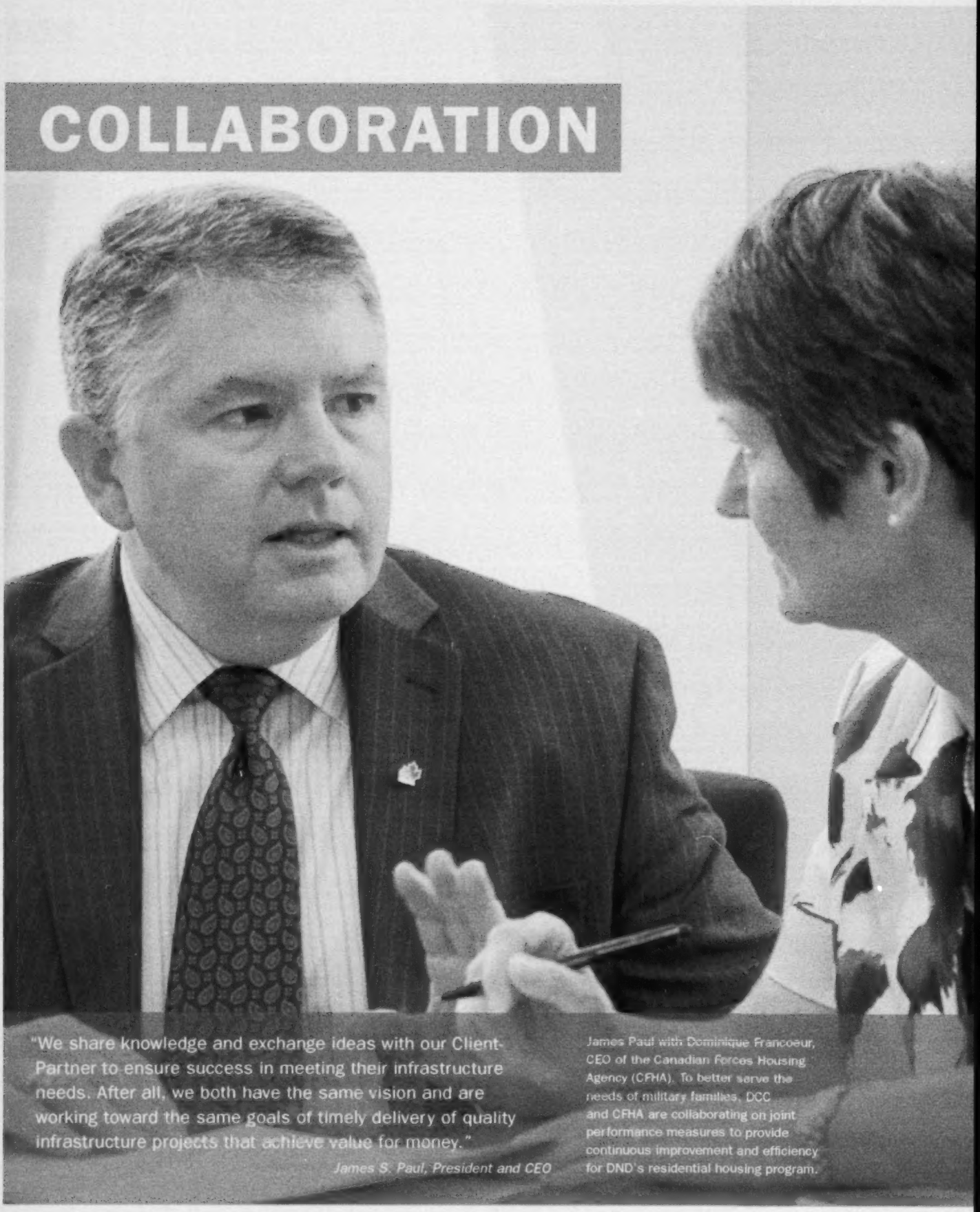
NATIONAL PRIORITIES. LOCAL INITIATIVES.
Canada's role in Afghanistan is defined and guided by a series of specific, interrelated priorities conceived to help the country re-establish itself as a better governed, more secure, stable nation. Through its work on the Staff and Language Training Centre-Afghanistan (SLTC-A) in Kabul—and in supporting the Canadian Forces (CF) across Afghanistan—Defence Construction Canada (DCC) plays a vital role in helping the Government of Canada meet its overseas objectives.

Built as part of the Department of National Defence's Military Training and Cooperation program to support and train the Afghan National Army (ANA), SLTC-A is a four-building, $10-million campus. Once complete, it will house accommodations and junior-officer instructional programs for as many as 520 ANA students per year.

Officials from DCC are on the ground in Kabul, leading the procurement and construction of SLTC-A. In so doing, DCC supports two key Government of Canada priorities in Afghanistan: it helps the Afghan government strengthen the ANA's ability to conduct operations and sustain a more secure environment, and it augments the Afghan government's capacity to deliver core services and promote economic growth.

SUPPORTING CANADA. SUPPORTING AFGHANS.
DCC's work on SLTC-A is about more than helping the Government of Canada meet its priorities in Afghanistan. The Corporation also plays a critical role in building the knowledge and expertise of the local construction labour force. Although an international general contractor leads construction of SLTC-A, the majority of the construction workers are locally hired Afghans. As a result of their ongoing exposure to international design and construction methods, the Afghan labourers on the job are learning best practices in construction that they will be able to apply to new building projects in their developing nation.

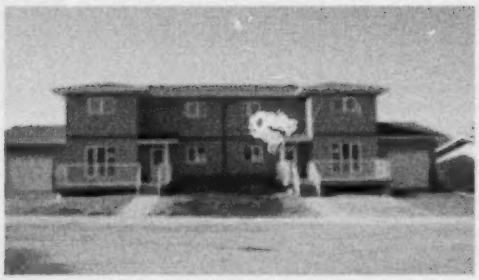
COLLABORATION



"We share knowledge and exchange ideas with our Client-Partner to ensure success in meeting their infrastructure needs. After all, we both have the same vision and are working toward the same goals of timely delivery of quality infrastructure projects that achieve value for money."

James S. Paul, President and CEO

James Paul with Dominique Francoeur, CEO of the Canadian Forces Housing Agency (CFHA). To better serve the needs of military families, DCC and CFHA are collaborating on joint performance measures to provide continuous improvement and efficiency for DND's residential housing program.



JOINT PERFORMANCE INDICATORS: A STUDY IN COOPERATION

Fiscal 2010–11 was the first year in which DCC and DND's Directorate for Construction Project Delivery (DCPD) measured progress against new joint performance indicators for some key CFHA projects. The exercise was an unqualified success. By establishing quarterly targets for funding reviews, design completion, project approval, tender issue and contract award, the groups administered their contracts more effectively and identified areas in which they could improve their internal processes. In the months ahead, DCC will mine these indicators for more data to further enhance the joint processes.

A CFHA housing development at CFB Wainwright that includes 60 residential units.

JOINT PERFORMANCE INDICATORS

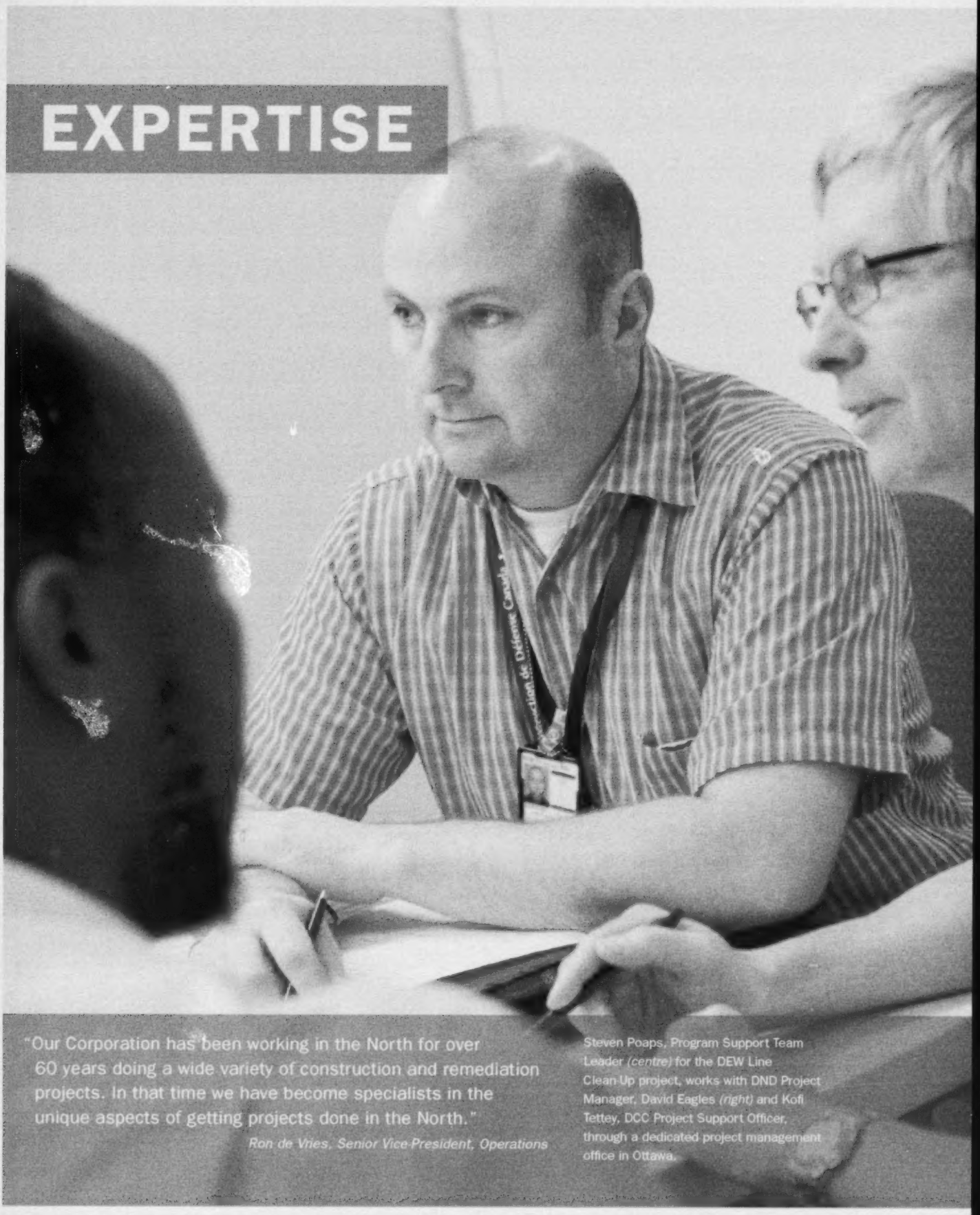
MATCHING OBJECTIVES. INCREASING EFFICIENCY. When a construction project is delivered by team members who support one another and adopt the same values and objectives, its success is almost assured. Having worked with the Department of National Defence (DND) for 60 years, DCC shares the same goals as its Client-Partner and has demonstrated a keen ability to deliver projects to demanding specifications on schedule and on budget.

The close relationship that DCC enjoys with DND is manifest in important and visible ways. The two entities maintain joint-process working groups and a responsibility-assignment matrix that help ensure effective coordination of efforts in the delivery of the infrastructure program. They share program management offices to administer special initiatives. And lately, they have adopted a series of joint performance indicators to refine the delivery of DND's construction programs.

Each year, personnel from DCC and DND's Directorate for Construction Project Delivery (DCPD) identify performance targets for the procurement of all proposed and ongoing major infrastructure projects. The targets are then monitored quarterly. The process has enabled DCPD and DCC to make stronger commitments to their mutual clients within DND. It has also enabled DCC to evaluate and refine its own processes to better serve DND.

DCC is unquestionably a valued team member on every DND construction project. The Corporation's commitment to continuous improvement strengthens its project delivery role.

EXPERTISE



"Our Corporation has been working in the North for over 60 years doing a wide variety of construction and remediation projects. In that time we have become specialists in the unique aspects of getting projects done in the North."

Ron de Vries, Senior Vice-President, Operations

Steven Poaps, Program Support Team Leader *(centre)* for the DEW Line Clean-Up project, works with DND Project Manager, David Eagles *(right)* and Kofi Tettey, DCC Project Support Officer, through a dedicated project management office in Ottawa.

CANADA'S NORTH: A STUDY IN EXPERTISE

DCC's portfolio of construction and procurement work in Canada's North spans the breadth of the country. On sites scattered across Nunavut, the Northwest Territories and Yukon, DCC's crews are supervising the decommissioning and environmental remediation of Distant Early Warning Line radar installations. Near Lady Franklin Point on Victoria Island, crews are managing reconstruction of the PIN-3 radar installation, a vital component of NORAD's North Warning System. And at Resolute, Nunavut, they are leading construction of a 750-person camp to support military operations.

North of the 60th parallel, DCC delivers unmatched construction procurement and management expertise.

Ron de Vries, Senior Vice-President Operations, inspects the progress being made on remediation as part of the DEW Line Clean-up at Cape Dyer, Nunavut, north of the Arctic Circle.

CANADA'S NORTH

UNIQUE CHALLENGES. UNIQUE EXPERTISE.
Defence Construction Canada has been a key agent for infrastructure procurement and delivery in Canada's North for nearly 60 years. In 1957, the Corporation participated in the construction of 42 facilities that comprised the Distant Early Warning (DEW) Line. In the decades that followed, DCC teams worked continuously in Canada's North, building defence infrastructure and managing specialized projects, all the while gaining experience in the efficient and effective delivery of procurement and construction services in the remotest region of the country.

Today, DCC's construction activity has come full circle. The Corporation is again working on the DEW Line, but in a vastly different capacity. Previously replaced by unstaffed operating stations, the former DEW Line installations are now being permanently decommissioned. Personnel from DCC's Environmental Services service line are leading a major clean-up of these facilities in one of the most fragile ecosystems in the world.

To execute such an environmentally sensitive program in such a difficult setting—the DEW Line clean-up is one of the largest environmental-remediation projects in North America—DCC personnel draw on an unmatched depth of experience from across all areas of the organization. Indeed, the Corporation's corporate knowledge is so respected that the Director General Military Engineering has requested that Corporation executives work with their DND counterparts to develop best practices to ensure a consistent and comprehensive approach to stakeholder engagement, construction procurement and environmental sustainability in the North.

DCC's 60 years of *in situ* experience and its work on the northern project implementation guide are shining examples of the way the Corporation's expertise helps DND and the Government of Canada protect Canada's Arctic sovereignty.

RESPONSIVENESS

"We stand ready to support our client when they need us. Between the Valcartier site office, the deployed operations group in Ottawa, and the Contract Services team, we were able to procure and prepare the shipment of earthquake relief materials to Haiti, within 24 hours of DND's original request."

John Blasko, Manager, Contract Services

Director Contract Services, Mélinda Nycholat *(left)*, discusses procurement planning and joint performance measurement with LCol Wayne Gauthier, DND Director Construction Project Delivery. These procurement practices respond quickly to the changing requirements of DND and the CF.

CFB TRENTON: A STUDY IN RESPONSIVENESS

Over just six years, professionals from DCC will issue nearly $455 million worth of construction contracts at 8 Wing CFB Trenton. Included in this immense program is the construction of hangars, training centres, transportation garages and material distribution centres. To manage such a massive range of construction activity, DCC has increased the size of its on-site team significantly and fine-tuned its procurement processes to ensure projects are awarded on time and on budget.

Always responsive, DCC rises to serve DND and the Government of Canada.

Contractors work at 8 Wing Trenton to meet the massive construction requirements for Canada's busiest base.

NEW PROCUREMENT TRENDS

SUPPORTING DND. SUPPORTING CANADA.

The face of defence infrastructure procurement in Canada is changing and DCC is responding. As recently as five years ago, the Department of National Defence's construction program authorized improvements to the country's bases and wings, mainly in response to infrastructure replacements or expansion requirements. Today, in support of the principles outlined in the *Canada First* Defence Strategy, procurement planning and activity are more intensive. Increasingly, whole bases have experienced long-term, comprehensive transformations to meet anticipated operational requirements.

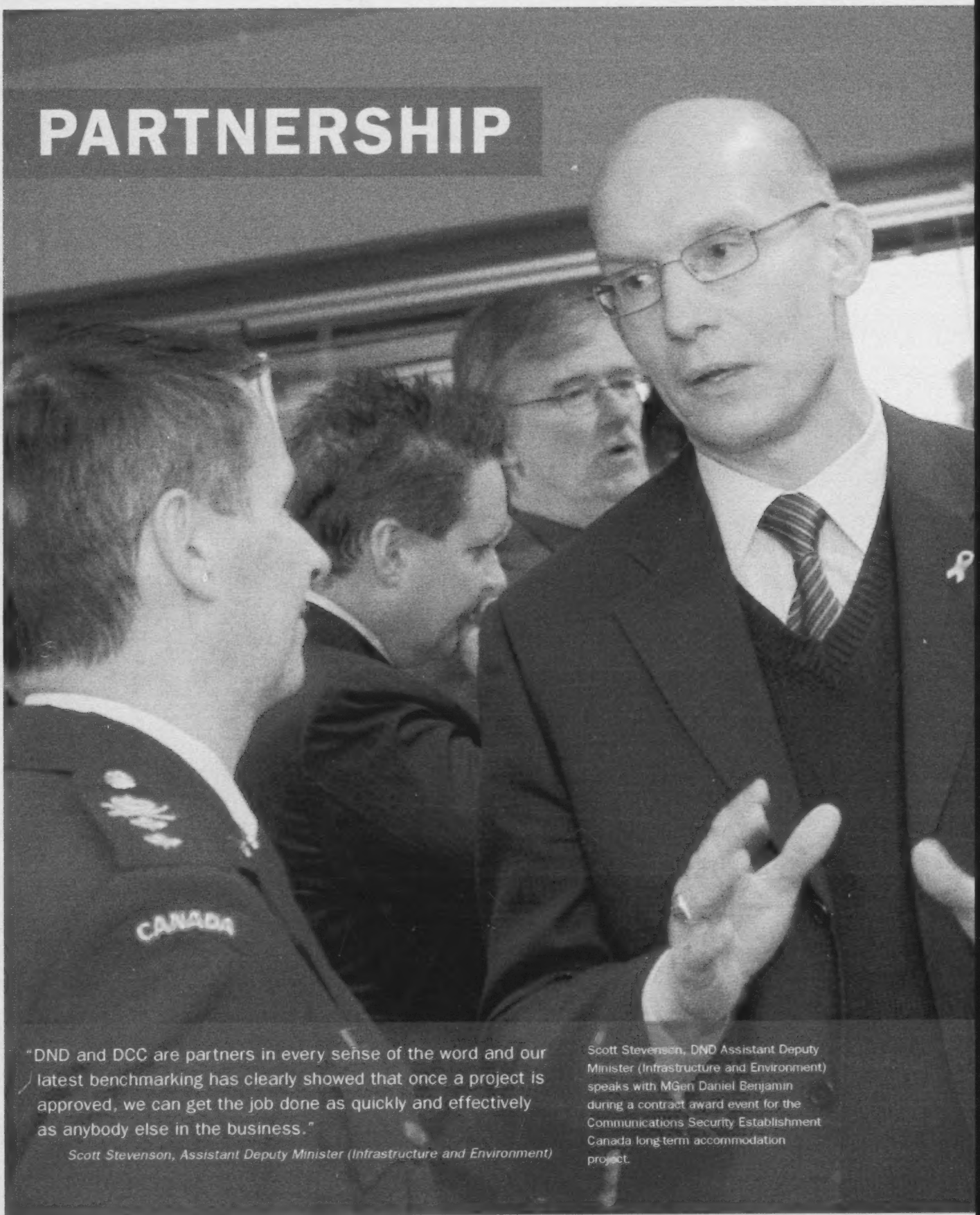
DCC's reaction to this fundamental shift in procurement has been swift. As required, it has revamped its processes and reallocated staff resources to ensure programs are delivered according to plan. At 8 Wing Canadian Forces Base (CFB) Trenton, for example—where a six-year, 50-project construction program is well under way—the Corporation's management carried out a massive recruitment campaign to meet demand. In two years, the number of DCC professionals at the base grew from six to almost 70.

DCC enacted a similar process at CFB Petawawa, tripling its personnel on site in less than three years. The Corporation also developed training modules to ensure all new employees perform their roles to DCC's exacting standards.

Finally, to manage a complicated design-build project at Canadian Forces Station St. John's in Pleasantville, Newfoundland and Labrador, DCC assigned one of its top construction contract management experts, Tony Ambrosio from CFB Suffield in Alberta. Mr. Ambrosio's expertise and demonstrated ability to manage complex, environmentally sensitive projects was essential to ensuring the successful launch of a $117-million facility—the largest single contract ever awarded by DCC at that time.

By responding quickly to its Client-Partner's changing needs and adapting its procedures and personnel resources to suit, DCC serves DND and supports the *Canada First* Defence Strategy with skill and vision.

PARTNERSHIP



"DND and DCC are partners in every sense of the word and our latest benchmarking has clearly showed that once a project is approved, we can get the job done as quickly and effectively as anybody else in the business."

Scott Stevenson, Assistant Deputy Minister (Infrastructure and Environment)

Scott Stevenson, DND Assistant Deputy Minister (Infrastructure and Environment) speaks with MGen Daniel Benjamin during a contract award event for the Communications Security Establishment Canada long-term accommodation project.

CSEC LTAP: A STUDY IN PARTNERSHIPS

The new long-term accommodation project (LTAP) in Ottawa for the Communications Security Establishment Canada (CSEC) will be a state-of-the-art, high-security facility housing the largest repository of top-secret information in the country. Built using a public-private partnership (P3), the building will span more than 72,000 net square metres. The associated 30-year, design-build-finance-maintain contract includes unique security, infrastructure and financing arrangements.

Working with officials from CSEC and other outside advisors, DCC personnel played a critical role in developing the public-private partnership model under which the LTAP was procured.

(left to right) Brian Budden, Senior Vice-President, Plenary Group, James Paul, DCC President and CEO, and Bob Brulé, CSEC Project Director at the signing of the CSEC LTAP contract award.

COMMUNICATIONS SECURITY ESTABLISHMENT CANADA

A REMARKABLE PROJECT. A RESPONSIVE APPROACH. When officials from the Communications Security Establishment Canada (CSEC) decided to procure the agency's long-term accommodation project (LTAP) via a public-private partnership (P3), they approached DCC for assistance. Highly specialized and technically complex, the procurement arrangement was by far the largest that DCC, DND or the national cryptologic agency had ever undertaken, as well as the largest federal government P3 infrastructure project ever awarded in Canada. CSEC officials turned to DCC because of the Corporation's expertise, responsiveness and demonstrated ability to deliver complex defence-infrastructure projects quickly.

DCC initiated the procurement process by assigning a member of its contracting team, Marty Cukierman, an expert in public-private partnerships. Mr. Cukierman and DCC personnel worked closely with teams from CSEC and other advisors to develop specifications for the project that included detailed construction, security and financing requirements. During the procurement process, the project team members enacted a supervised, interest-based negotiation model through which they offered input and detailed feedback to each proponent team. Proposals were evaluated for suitability against myriad criteria, and members of all evaluation teams reached unanimous agreement on every decision. Independent fairness monitors supervised every step of the procurement exercise to ensure that the process and the evaluation team's decisions were as objective and transparent as possible.

FLEXIBLE, RESPONSIVE AND DECISIVE

Since the contract award, CSEC officials have praised DCC's team and its outstanding, client-oriented approach to procurement. As a result of DCC's flexibility, responsiveness and decisiveness, construction on CSEC's LTAP is under way on schedule.

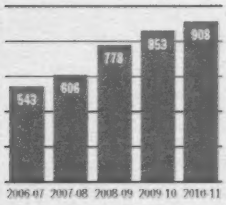
THE ORGANIZATION

EMPLOYEES

DCC's chief asset is its people, and its corporate success is built on employee ability and commitment. DCC has a dedicated workforce of professional, technical and administrative people. Other specialists in finance, human resources, information technology, communications and administration support the operations workforce.

At year end, DCC had 908 employees, an increase of 6.5% from 853 in 2009–10.

Number of employees



DCC has many long-standing employees who have enjoyed exciting careers with the Corporation. Each year, DCC recognizes those employees who have achieved employment milestones. In 2010–11, 58 employees marked five years of service with DCC, 13 employees marked 10 years of service, four employees marked 15 years of service, four employees marked 20 years of service, three employees marked 25 years of service, four employees marked 30 years of service and one employee marked 35 years of service.

DCC's internal career development practices helped 167 employees advance their careers through promotions, transfers, relocations and acting assignments during the past year. Thirty-one employees volunteered for deployment to Afghanistan and for northern assignments for DEW Line projects. DCC and DND benefit from the transfer of skills among operating locations as employees hone their skills and test themselves. In addition, DCC expands its base of knowledge and experience.

CORPORATE SERVICES

To help DCC deliver services, the Corporate Services group at the Corporation's Head Office in Ottawa provides support services to the entire organization and contract financial administration services to the client. These services include human resources, financial and accounting, information technology, communications and administrative support.

The Corporate Services Group is comprised of a strong and dedicated team of employees, technicians and professionals from a variety of disciplines. Collectively they have met the ever increasing challenge of building and maintaining adequate infrastructure to handle the growing demand for support services in response to the significant growth in recent years. To meet these growing and changing business requirements, investments in such things as new office space, inform tion systems and technologies, administrative tools, and office equipment have been undertaken. In addition, the group maintains business and operational policies and practices to create an effective internal control system that safeguards corporate assets, while supporting employees and service delivery.

James Paul (second from the left) *with national award winners* (left to right): *Scott McRae, Rita Caminiti, Annette Murphy, Derek AuCoin and Richard Thibault. Absent: Sabrina Rock and Tim Flath.*

AWARDS

NATIONAL AWARDS 2010–2011

DCC proudly recognizes the contributions of all employees to the Corporation's success. The National Awards program, in particular, is a celebration of the very best accomplishments of the men and women who drive DCC forward.

James Paul presents Peter Garieri with the President's Certificate of Recognition.

The President's Award is presented annually to the employee who has consistently demonstrated outstanding service to the Corporation. This year's recipient is Rita Caminiti, System Support Analyst at Head Office.

The Service Development Award recognizes employees whose actions best contribute to the development or promotion of client services and the service delivery team. Sabrina Rock, Manager, Environmental Services in the Western region, is this year's recipient.

The Corporation presents its Customer Satisfaction Award to the employee or employees who have consistently provided exemplary customer service over the years. In 2010–11 DCC was privileged to present this award to two recipients:

- Richard Thibault, Team Leader, Project and Program Management Services, from the Quebec region; and
- the Goose Bay Remediation team from the Atlantic region, whose members included Derek AuCoin, Jason Barnes, Jordan Mooers, Annette Murphy, Yvonne Chabassol and Jill Searle.

The Innovation Award recognizes employees who deliver innovative, value-added solutions to DCC's clients. The recipient of this year's award is Tim Flath, Environmental Program Manager, Western region.

The Robert Graham Memorial Award is presented to the employee who makes a special contribution to the improvement of workplace safety or environmental protection. Scott McRae, Health and Safety Coordinator, Ontario region, is the 2010–11 recipient.

DCC President and CEO James Paul also presented the President's Certificate of Recognition to Peter Garieri, Construction Services Coordinator, for his exemplary service at the Afghan National Army Command and Staff College in Kabul, Afghanistan.

GENERAL SERVICE MEDALS

The General Service Medal is awarded to Canadian citizens, other than members of the CF, who deploy outside of Canada to provide direct, full-time support to operations in the presence of an armed enemy. DCC is proud of its employees who accept the challenge of serving Canada and DND's deployed operations. In 2010–11, the following 16 employees received the General Service Medal or bar for serving in Kandahar, Afghanistan, in support of Operation ATHENA:

Michael Drake	Paul Leavitt	Gregory Sheppard
Keith Dyer	Vanessa Leslie	Réjean Vaillancourt
Amanda Eid	Daniel MacArthur	David Wharrie
Fredrick Ernst	Valerie McDermott	Marian Winsor
Peter Garieri	Richard Nolet	
Michael Hofman	Michael Palmer	

Col Raymond Baker

FRIENDS OF DCC AWARD

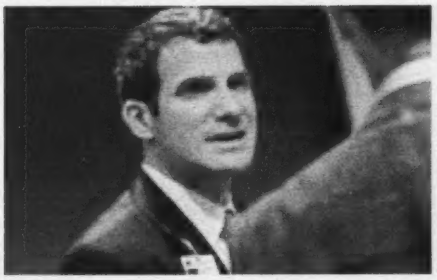
DCC President and CEO, James Paul, visited 1 Canadian Air Division headquarters at CFB Winnipeg on July 20, 2010. During his visit, Mr. Paul presented the Friends of DCC Award to Col Raymond Baker and LCol G.J.J. Gergely for their work to develop A4 Construction Engineering Infrastructure Facilities (A4 CE Infra). A respected resource known for its innovation and accomplishments, A4 CE Infra has executed a very demanding construction program over the last three years.

In spring 2011, Claude Bédard, Project Manager with the Directorate for Construction Project Delivery at DND in Montreal, was presented with the Friends of DCC Award. As the very first recipient of this award in 1998, Mr. Bédard has continued to work closely with DCC personnel and demonstrates the collaborative spirit and long-lasting relationship between DCC and DND.

Mr. Claude Bédard

CORPORATE REPORTING AWARD

On November 25, 2010, the Canadian Institute of Chartered Accountants recognized DCC for the quality of its corporate financial reporting. DCC won the 2010 Award of Excellence in the category of small federal Crown corporations.



CORPORATE GOVERNANCE

BOARD STEWARDSHIP

DCC reports to Parliament through the Minister of Public Works and Government Services (the Minister). DCC's Board of Directors (the Board) is responsible for the stewardship of the Corporation. Pursuant to the *Financial Administration Act* (FAA), DCC's Board is responsible for the management of the business, activities and other affairs of the Corporation. DCC's bylaws set out the framework for the operation and management of the Corporation, and the Board of Directors Charter outlines the particular areas of oversight. The Board Charter is available on DCC's website at www.dcc-cdc.gc.ca.

In addition to the FAA, bylaws and charter, in November 2010, the Chair of DCC's Board received the annual statement of priorities and accountabilities, which is also known as a letter of expectations from the Minister. This document articulates the key concerns and expectations of the Government of Canada for DCC and helps DCC ensure that it fulfills its public policy mandate. These key concerns are incorporated into the DCC 2011–12 to 2015–16 Corporate Plan and into this Annual Report.

To assist the Board in its responsibilities, two committees have been established: an Audit Committee and a Governance and Human Resources Committee. These committees have separate and distinct responsibilities, which are articulated in their respective charters, available on DCC's website at www.dcc-cdc.gc.ca. Details of their activities in 2010–11 are outlined later in this Annual Report.

The other key pieces of legislation to which DCC is also subject include the *Public Servants Disclosure Protection Act*, *Access to Information Act* and *Privacy Act*. DCC also receives corporate governance policy and practice guidance through the Treasury Board of Canada Secretariat (TBS).

STRATEGIC PLANNING

Board and committee meetings are scheduled primarily to maximize the oversight of DCC's strategic planning process. DCC's annual strategic planning process began in September 2010, when the Board met to discuss initial input into the Corporation's strategic plan, such as key priorities of the Government of Canada and the ways DCC's strategic objectives relate to these priorities. DCC executive management used the input from these discussions to inform DCC's strategic planning session, held in late September, and to draft the Corporate Plan. At the strategic planning session, DCC's management group also assessed progress on the initiatives

from previous Corporate Plans, and discussed the results of an environmental scan of issues and trends relevant to DCC's operations. The resulting draft 2011–12 to 2015–16 Corporate Plan (draft Plan) incorporated all of this input, including new key corporate initiatives and their related corporate performance measures. The Board reviewed and approved the draft Plan, as well as the annual operating and capital budgets, at a meeting in early December 2010.

COMMUNICATION WITH GOVERNMENT, OTHER STAKEHOLDERS AND THE PUBLIC

To encourage participation in its Annual Public Meeting, DCC posts a notice of the event on the DCC website a month before it occurs. Also, the Corporation sends written invitations to the heads of industry associations who, in turn, pass along the details to their membership. DCC's Client-Partner and the entities with which DCC works regularly within the DND and CF are also invited to attend this meeting. The 2010–11 Annual Public Meeting took place in Ottawa on May 27, 2010. At this successful event, DCC shared information on its financial results, service lines and procurement practices, and various issues of concern to industry stakeholders were discussed. The summary of proceedings for this meeting may be found on DCC's website at www.dcc-cdc.gc.ca.

The Chair of the Board communicates regularly with the Office of the Minister. The Board receives regular reports on the stakeholder engagement and relationship management activities of the President, as well as of each member of DCC's executive management team.

WORKING RELATIONSHIP BETWEEN THE BOARD AND MANAGEMENT

The Board of Directors encourages DCC's executive management to participate in board meetings. Board meetings are held both in Ottawa and in the five DCC regions across Canada (Atlantic, Quebec, Ontario, Western and National Capital Region). Given current fiscal restraint, it is not appropriate to have the entire executive team incur travel expenses to attend meetings held outside of Ottawa, so specific representatives of management were invited to take part in these meetings in 2010–11. Board meetings held in DCC's regional offices give DCC personnel an opportunity to meet board members and to see DCC's corporate governance process. In an informal setting before the formal meetings, the regional directors or their representatives give presentations to board members on such topics as DCC's activities and business volume in the region, how the region compares with other regions in terms of corporate performance, and key concerns facing DCC in that region. In 2010–11, board meetings were held at CFB Esquimalt (September 2010) and Garrison Valcartier (March 2011).

BOARD INDEPENDENCE

DCC's Board consists of seven members who are all independent of DCC management, except for DCC's President and CEO. At fiscal year end there were two vacancies. The Board functions independently of DCC management, which is a fundamental principle of good governance. The Chair of the Board ensures the effective functioning of the Board as it carries out its duties and responsibilities.

The roles of the Chair of the Board and of the President and CEO are separate, and no officers or employees of DCC serve as directors. The Minister appoints directors, with the approval of the Governor in Council. Directors may hold office for no more than four years, after which time they may be re-appointed or may continue in office until a successor is appointed, should they wish to do so. The Governor in Council appoints the Chair of the Board and the President and CEO, for such terms as the Governor in Council considers appropriate.

The Board meets quarterly and committee meetings are scheduled around board meetings to minimize expenses. Private sessions are held at each board and committee meeting so that members of the Board may meet without DCC management being present. The Board also meets regularly with the Office of the Auditor General (OAG) and with DCC's third-party internal auditors, Interis Consulting Inc. In 2010–11, a new team of auditors from the OAG was introduced to DCC and Interis Consulting Inc. was appointed DCC's third-party internal auditors for another five-year period.

EVALUATING THE PERFORMANCE OF THE PRESIDENT AND CEO

The President and CEO's performance management is directly linked to DCC's overall corporate performance. The Board of Directors monitors and evaluates DCC's performance by reviewing and approving the annual five-year Corporate Plan, as well as quarterly reports on the status of the implementation of initiatives within the Corporate Plan.

Pursuant to the Performance Management Program of the Privy Council Office (PCO), the Board used the Performance Agreement for DCC's CEO—finalized the previous year—as the basis for the President and CEO's 2010–11 performance review and evaluation, and the Board's subsequent rating recommendations. The Chair consulted with board members and also ensured that the shareholder's views were reflected. The Chair submitted the final detailed assessment of the CEO's performance to the Minister. Copies also went to the Deputy Minister of Public Works and Government Services, and to the Deputy Secretary to the Cabinet (Senior Personnel and Public Service Renewal) PCO, as per the program process.

EVALUATING BOARD EFFECTIVENESS

Pursuant to PCO guidelines, DCC uses a Director Profile, which helps clarify roles and responsibilities of the Board; identify the core attributes, competencies and experience directors need; and define the optimal mix of specific skills, knowledge and experience needed for DCC's Board to function effectively. The key roles and responsibilities of members of DCC's Board include governance, strategic planning, risk assessment and management, internal controls, performance management and evaluation, and management continuity.

The intention of PCO is to use the Director Profile in the appointment process to ensure there is an appropriate mix of skills and experience among board members. Currently, DCC's Board members demonstrate a good balance of public and private sector experience, and have knowledge of varied fields relevant to the Corporation's business, such as engineering, construction, law, finance and public administration. There is also gender equity with three male and two female board members. At fiscal year end there were two vacancies on DCC's Board. No appointments were made in 2010–11.

To ensure continued effectiveness, all board members complete an annual written Board Assessment Questionnaire. It includes sections for assessing the performance of committees and of individual board members. The board and committee charters are the bases of the assessment process. The assessment process provides members of DCC's board directors with an opportunity to examine how the Board is operating and to make suggestions for improving the Board or its committees of the Board. The process focuses on board and committee performance and it provides each board member with an opportunity to comment on the performance of the Chair of the Board as well as of the committee chairs. The directors are also asked to evaluate their individual contributions as a self-development tool.

The 2010 board assessment process took place between December 2010 and March 2011. The results were compiled and an analysis report was prepared in such a way that no responses could be attributed to individual members. This report was reviewed by the Chair of the Governance and Human Resources Committee, and then by that committee's members, in February 2011. The full Board reviewed and discussed it at the March 2011 board meeting. The report was provided to the Minister after the board review, as per TBS guidance.

ORIENTATION AND ONGOING TRAINING FOR BOARD MEMBERS

Members of DCC's Board of Directors must understand how DCC functions, as well as the role the Board plays in the management of DCC.

Newly appointed board members participate in DCC's initial full-day intensive orientation program. Continuing education opportunities for all board members are available throughout the year. Members are also welcome to seek further information on any aspect of DCC's business at their convenience. Furthermore, all board members receive quarterly briefings about DCC's programs and services. Information on specific issues of interest may also be requested by board members and DCC personnel may also bring matters to the Board's attention. DCC is a member of the Institute of Corporate Directors (ICD) and encourages board members to participate in ICD events and to review ICD publications. In 2010, all board members did so.

When meetings are held outside of Ottawa, board members are able to tour project sites and to see first hand how DCC's services add value for the Government of Canada. These activities increase board members' knowledge of DCC and solidify their understanding of the environment within which DCC operates. During the September 2010 board meeting at CFB Esquimalt and the March 2011 board meeting at Garrison Valcartier, board members saw projects in which DCC is participating, and heard from both DCC personnel and DND/CF personnel about activities at those sites.

GOVERNANCE APPROACH FOR DCC

The Board of Directors has ultimate responsibility for the governance of DCC. The main ways in which the Board carries out this role are by approving the strategic direction in the Corporate Plan; ensuring that the principal risks associated with DCC's business have been identified and that appropriate systems are in place to manage them; approving management's succession plan; and ensuring that information systems and management practices meet DCC's needs, and foster confidence in the integrity of corporate information and reports.

The Board ensures the Corporation is prepared to achieve its goals by overseeing the strategic planning process, by providing input and guidance for the process, and by evaluating strategic plans and corporate initiatives.

It is also important for the Board to ensure that DCC management maintains an appropriate balance between public policy objectives and relevant private sector business practices. These issues are identified and discussed in DCC's Corporate Plans and Annual Reports, and are also brought forward at the Annual Public Meeting. In 2010–11, the Board received quarterly reports on DCC's risk management framework and the steps being taken to address any concerns. Information on DCC's risk management framework may be found in Section 5.0 of Management's Discussion and Analysis on page 43 of this report.

ETHICAL BUSINESS CONDUCT

DCC is mindful of the expectations of employees in such areas as codes of ethics, disclosure of wrongdoing, and compliance with legislation and policies. In addition to applying the *Public Servants Disclosure Protection Act*, DCC has its own Code of Business Conduct (the Code). DCC's Board monitors compliance with the Code, as well as policies and legislation related to business and employee conduct, through regular reports.

Each year, DCC personnel are required to review their obligation under DCC's Code and to reply to an annual electronic reminder of their responsibilities. This electronic system ensures that DCC keeps accurate records of responses and does appropriate follow-up. New employees must pass an online test on DCC's Code shortly after they are hired. The President reports to the Board regarding code compliance matters, both annually and as they arise. In this way, the Board ensures that DCC maintains its good practices regarding programs and policies related to values and ethics. In 2010–11, all DCC personnel responded to the request for review and all new hires completed the required test.

Board members adhere to the requirements of the *Conflict of Interest Act*. Each year, they sign a Declaration Regarding the *Conflict of Interest Act*, which ensures they are aware of the requirements of this Act and confirms they intend to continue to comply with them. In 2010–11, all board members signed the declaration.

AUDIT

As stipulated in the *Financial Administration Act*, the Office of the Auditor General (OAG) is the auditor for DCC. In addition to regular annual audits of the Corporation's financial statements, the OAG is obligated by the FAA to carry out a special examination of DCC at least once every 10 years. DCC's last special examination took place in 2008.

The FAA stipulates that DCC shall maintain an internal audit function. Interis Consulting Inc. provides third-party internal audit services to DCC to fulfill this obligation. The Board receives regular reports on these audits, including details on the implementation of recommendations. In 2010–11, the Board approved the recommendation of the Audit Committee to appoint Interis Consulting Inc. as DCC's third-party internal auditors for another five-year period. Further information on audit activities may be found in the Audit Committee section later in this report.

SUCCESSION

The Board reviews the succession plan for DCC's executive management to ensure DCC can identify, attract and retain appropriate skills and knowledge.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors carries out its detailed work through two board committees: the Audit Committee, and the Governance and Human Resources Committee. Each member of the Board serves on at least one committee. The following sections contain information on the charters of each committee, as well as on the committees' key activities in 2010–11.

AUDIT COMMITTEE

Chair: Kris Matthews. Members: Shirley McClellan and Marc Ouellet. The Committee met five times in 2010–11.

The key function of the Audit Committee is to review and advise the Board with respect to the financial statements to be included in DCC's Annual Report and the annual auditor's report; to oversee any internal audits of DCC; and to perform other functions assigned to it by the Board, under the bylaws of the Corporation or under the Committee Charter. The Audit Committee also helps the Board oversee DCC's annual financial statements and reporting, internal controls, financial accounting principles and policies, internal and external audit processes, and compliance programs.

All Audit Committee members are independent of management, as per the *Financial Administration Act*. They are financially literate, and the Chair is a financial expert who has a recognized accounting designation, as per the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*.

The Audit Committee meets regularly in camera with representatives from the OAG and from Interis Consulting Inc.

KEY ACTIVITIES

Internal Auditors: The Committee reviewed and recommended that the Board approve the appointment of Interis Consulting Inc. as DCC's third-party internal auditors for a further five-year period. After consultations with DCC executive management and the Audit Committee, Interis provided a five-year audit plan that the Committee approved. The Committee reviewed the results of all internal audits conducted during the reporting period, as well as the follow-up on recommendations in previous audits.

OAG: The Committee reviewed the OAG's annual audit plan.

Committee Charter: The Committee reviewed and amended its Charter to ensure its continued alignment with the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*. It also revised its annual work plan.

International Financial Reporting Standards: The Committee continued its review of DCC's transition to this new standard and its potential impact on the Corporation.

TBS Standard on Quarterly Financial Reports for Crown Corporations: The Committee reviewed DCC's preparations for this new requirement.

GOVERNANCE AND HUMAN RESOURCES COMMITTEE

Chair: Robert Presser (Acting). Members: Marc Ouellet and James Paul (ex officio). The Committee met three times in 2010–11.

The key function of the Governance and Human Resources Committee is to help DCC develop the Corporation's approach to corporate governance, which includes evaluating DCC's practices to ensure they are in line with current best practices and TBS guidance. The Committee also oversees the annual board self-assessment process, which includes questions related to committees and to individual board members.

In relation to human resources matters, the Committee ensures that DCC's core human resources policies are sound and that appropriate related processes are in place. It also oversees the performance management process for the President and CEO, as well as the annual performance assessment of DCC's executive management group, and recommends the appointment of corporate officers.

The Committee also participates in the nomination and appointment process for Order in Council appointments and ensures that the Board Competency Profile is kept up to date.

KEY ACTIVITIES

Governance

Board and Committee Membership: The Committee reviewed the need for two more board members and identified on which committees new appointees would sit.

DCC bylaws: The Committee reviewed and recommended for approval the amendment, consolidation and updating of DCC's bylaws.

Audit Committee Charter: The Committee reviewed the Charter of the Audit Committee and recommended that the Board approve it.

Board Assessment: The Committee oversaw the annual board assessment and individual director survey; ensured that a plan was in place to implement recommendations for improvement; and reported on the results to the Minister of Public Works and Government Services.

Human Resources

DCC's Human Resources Policies: The Committee reviewed newly proposed policies and amendments to existing policies, and recommended them for board approval.

Performance Management Program for the CEO: The Committee assessed the CEO's performance; reviewed proposed changes to the performance review process for DCC's executive team; and recommended the re-appointment of corporate officers.

Nominations: The Committee maintained the Director Profile.

ATTENDANCE AT BOARD OF DIRECTORS MEETINGS AND COMMITTEE MEETINGS APRIL 1, 2010 TO MARCH 31, 2011

	Board Meetings	Audit Committee	Governance and Human Resources Committee
Matthews, Kris	4/5	5/5	
McClellan, Shirley	5/5	4/5	
Ouellet, Marc[1]	5/5	5/5	2/2
Paul, James	5/5		
Pentney, William[2]	2/2		1/1
Presser, Robert	5/5		3/3

(1) Mr. Marc Ouellet became a member of the Governance and Human Resources Committee on September 13, 2010.

(2) Mr. William Pentney was member of the Board until August 31, 2010.

This chart notes attendance at committee meetings of committee members only and not that of board members who attend committee meetings as observers.

BOARD COMPENSATION

The Privy Council Office's document, *Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations*, dated October 2000, sets out the guidance for retainer and per diem amounts for Crown corporation board members. In the Privy Council's February 2010 document, *Performance Management Program Guidelines for Chief Executive Officers of Crown Corporations*, DCC is listed in Group 3. The compensation for directors is set by Order in Council at the time of their appointment.

	Annual Retainer	Per Diem
Matthews, Kris	$3,800.00	$300.00
McClellan, Shirley	$3,800.00	$300.00
Ouellet, Marc	$3,800.00	$300.00
Pentney, William[1]	n/a	n/a
Presser, Robert	$7,500.00	$300.00

(1) Mr. Pentney was the Associate Deputy Minister of National Defence, and, as such, was not eligible to receive remuneration as a member of DCC's Board of Directors, which is a part-time Governor-in-Council appointment.

DEPARTING BOARD MEMBER

Mr. Bill Pentney

Mr. Pentney resigned from DCC's Board in August 2010. The contribution he made to the Board during his tenure was invaluable.

BOARD OF DIRECTORS

MR. ROBERT PRESSER
Chair of the Board
As Vice-President of Acme Engineering Products Ltd. in Montreal, Mr. Presser has extensive experience in corporate governance, as well as in mergers and acquisitions, with large Canadian corporations.

MS. KRIS MATTHEWS
A Certified Management Accountant (CMA) and a business consultant, Ms. Matthews is the Managing Partner of The Matthews Group, LLP, in Calgary, and has served on the boards of directors of numerous private sector organizations.

MS. SHIRLEY MCCLELLAN
Appointed as the 12th Chancellor of the University of Lethbridge in March 2011, Ms. McClellan is also the Chair of the Board of Horse Racing Alberta and held numerous senior cabinet positions as a member of the Alberta Legislature from 1987 to 2007.

MR. MARC OUELLET
After retiring from the Air Force after a 32-year career during which he held several command appointments, Mr. Ouellet is now an aerospace and security consultant with CIRRUS Research Associates Inc.

MR. JAMES S. PAUL
Mr. Paul has 30 years of business experience with a variety of international companies. He has a Law degree from the University of Ottawa and, prior to his appointment with DCC, he served as Chair of the Canada Science and Technology Museum Corporation's Board of Trustees.

EXECUTIVE TEAM

JAMES S. PAUL, LLB
President and Chief Executive Officer
Mr. Paul was appointed to the position of President and Chief Executive Officer in September 2009. His career has spanned almost 30 years and includes senior management roles in large Canadian technology firms. Before his appointment to DCC, Mr. Paul served as President of a Canadian technology company, and as Chair of the Canada Science and Technology Museum Corporation. He holds a Law degree from the University of Ottawa.

RONALD DE VRIES, P.ENG.
Senior Vice-President, Operations
Mr. de Vries joined DCC in 1983 after a number of years with a private consulting firm. He has been involved in the full spectrum of DCC's operations and has led a number of strategic initiatives that have contributed to the development of the Corporation's services and practices. He holds a Bachelor of Science (Civil Engineering) degree from Queen's University and is active on several committees within industry and government.

STEVE IRWIN, P.ENG., CD
Vice-President, Operations
Mr. Irwin joined DCC in 2006 after serving 36 years with the Canadian Forces (CF), concluding his tenure as Chief Military Engineer of the CF at the rank of Brigadier-General. He held the appointment of CEO of the Canadian Forces Housing Agency immediately before arriving at DCC. He graduated from the Royal Military College with a Bachelor of Engineering (Mechanical) degree.

RANDY MCGEE, P.ENG., GSC
Vice-President, Operations
Originally with DCC from 1984 to 1998, Mr. McGee rejoined DCC in 2001 as the Western Area Engineer, after three years in the private sector. He has extensive experience in managing large construction, consultant and design-build projects. Mr. McGee holds a Bachelor of Science in Engineering (Civil) degree from the University of Manitoba and is a Canadian Construction Association Gold Seal Certified Project Manager.

ANGELO OTTONI, CA
Vice-President, Corporate Services, Chief Financial Officer and Treasurer
Mr. Ottoni joined DCC in 2001 after working in the technology industry and with an international accounting firm. A chartered accountant, he earned a Bachelor of Commerce degree from Concordia University and a Public Accountancy diploma from McGill University.

SENIOR MANAGEMENT TEAM

JOHN GRAHAM, P.ENG., PMP
Director, Ontario Region
Mr. Graham graduated from Lakehead University in 1988 with a Bachelor of Engineering (Civil) degree. He joined DCC as a Junior Engineer in the Kingston office and has worked in numerous positions and on many sites. In 1998, he attained his designation as a Project Management Professional and the following year became the Area Engineer for Ontario Region. Mr. Graham was appointed as the Director, Ontario Region in 2009.

STEPHEN KARPYSHIN, P.ENG.
Director, Western Region
Mr. Karpyshin joined DCC in 1988 and has worked on such projects as the North American Air Defence Modernization project and the Infrastructure Reduction Program in Edmonton. A graduate of the University of Manitoba in Physics and Civil Engineering, he is a member of the Association of Professional Engineers and Geoscientists (Manitoba); the Association of Professional Engineers, Geologists, and Geophysicists of Alberta; and the Alberta Federal Council.

MARC LANTEIGNE, P.ENG., ING.
Director, Quebec Region
Since joining DCC in 1988, Mr. Lanteigne has worked in every region and on projects such as the construction of short-range radar sites in Labrador. He was the Western Region Area Engineer prior to assuming responsibility for the Quebec Region in 2001. Mr. Lanteigne earned a Bachelor of Science in Engineering (Civil) degree from the University of New Brunswick and is a member of l'Ordre des Ingénieurs du Québec and the Association of Professional Engineers and Geoscientists of New Brunswick.

DAVID MCCUAIG, PMP, MPM
Director, National Capital Region
Mr. McCuaig joined DCC in 2000 and oversees large projects, including support to deployed operations and the Distant Early Warning (DEW) Line Clean-Up project. With over 20 years of experience in project management and construction with industry and government, he has taught project management and construction at the graduate college level. Mr. McCuaig earned a Master of Project Management degree from the Université du Québec and holds a Project Management Professional designation.

MÉLINDA NYCHOLAT, P.ENG., PMP
Director, Contract Services
Ms. Nycholat joined DCC in 1988 as a Junior Engineer in Gagetown and has managed large projects across the country. Ms. Nycholat holds a Bachelor of Civil Engineering degree from the Université Laval as well as a Project Management Professional certificate. She sits on the Board of Directors of the Canadian Public Procurement Council and is also a member of the Treasury Board Advisory Committee for Construction Contracts.

ROSS WELSMAN, P.ENG., PMP
Director, Atlantic Region
Originally with DCC from 1983 to 1988, Mr. Welsman rejoined DCC in 2003 as the Area Engineer for the Atlantic Region. He has worked on a number of major DCC projects, such as the long-range radar station in Labrador and the Jetty 8 Improvement Project in the Halifax dockyard. Mr. Welsman earned both a Bachelor of Science and a Bachelor of Engineering (Civil) degree from Memorial University of Newfoundland, and holds a Project Management Professional designation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1.0 CORPORATE PROFILE

1.1 PROFILE

Created in 1951, Defence Construction Canada (DCC) is a Crown corporation that provides a wide variety of property-related services to support the defence of Canada. The prime focus and beneficiaries of DCC's services are the Department of National Defence (DND) and Canadian Forces (CF) operations, both domestic and overseas. DCC is accountable to Parliament through the Minister of Public Works and Government Services.

Over the years, DCC's extensive construction expertise has been instrumental in the construction of projects that have shaped the Canadian economic and military landscape and fulfilled Canada's international obligations. Examples of such projects include the Distant Early Warning (DEW) Line across the Arctic, the northern Ontario section of the Trans-Canada Pipeline and, more recently, the Canadian Embassy in Kabul, Afghanistan.

1.2 MISSION, VISION AND VALUES

MISSION: DCC's mission is to deliver infrastructure and environmental projects and services required for the defence of Canada.

VISION: DCC's vision is to be a leading provider of innovative solutions that add value for its client, foster professional development of its employees and make meaningful contributions to its industry.

VALUES: DCC's values ensure the Corporation can continue to meet the requirements of DND and the CF in Canada and abroad. Those values include the following.

DEDICATION: DCC is dedicated to supporting DND's infrastructure and environmental requirements. For 60 years, DCC employees have dependably and diligently carried out that mission.

FAIRNESS: DCC deals with its client, contract partners and employees in a fair and ethical manner, advocating mutual respect and professionalism in the attainment of the common objectives of all parties.

COMPETENCE: DCC has created a dynamic working environment in which the qualifications, experience and expertise of employees are focused on developing innovative solutions to the client's needs.

1.3 DCC'S CLIENT-PARTNER

Operationally and administratively, DCC deals with many organizations within DND. The Infrastructure and Environment Group of National Defence headquarters is DCC's principal point of contact for the centrally managed capital construction and environmental programs. As the chiefs of the maritime, land and air staffs are responsible for construction and maintenance programs at their respective facilities, DCC also has significant dealings with their organizations, primarily at the base, wing and station levels. DCC supports CF operations as requested by Canadian Operational Support Command, Canadian Expeditionary Forces Command and Canada Command.

Some of the smaller DND organizations for which DCC also contracts for—and manages—construction and environmental services include the Canadian Forces Housing Agency, Defence Research and Development Canada, and the Canadian Forces Personnel Support Agency. The Corporation also supports the country's North Atlantic Treaty Organization (NATO) allies with training programs and facilities in Canada.

DCC will respond to requests for support within the scope of its mandate from other government departments and agencies with roles in Canada's changing defence environment.

1.4 CONTRACTORS AND CONSULTANTS

Because DCC works closely with private sector consultants and contractors, it is vital that the Corporation stay abreast of trends in the construction industry. In addition to maintaining formal exchanges with the Canadian Construction Association and its provincial and trade counterparts, DCC employees interact with contractors on job sites every day. These discussions help keep DCC informed of industry developments and provide a useful forum through which the Corporation connects with its industry partners.

DCC also maintains relations with other groups, such as the Association of Consulting Engineering Companies-Canada, the Royal Architectural Institute of Canada, the Canadian Public Procurement Council and the Canadian Design-Build Institute, as well as industry organizations for a variety of non-construction services.

2.0 CAPABILITIES TO DELIVER RESULTS

2.1 CORE CHARACTERISTICS

There are five characteristics that allow DCC to deliver quality service consistently. These have a direct impact on the viability of the Corporation.

FOCUS: DCC has had a single focus on a major client for 60 years, developing an understanding of the client's needs and preferred approaches. That makes DCC unlike any other organization of its size in either the private or public sector.

SERVICE: Standing between the public and private sectors, DCC knows how both the construction industry and the government work. This knowledge allows DCC to effectively communicate requirements to both the client and external service providers.

DELIVERY: DCC provides immediate and reliable access to technical and administrative expertise and, unlike many providers of similar services, does so on a continuing basis at the work site.

FLEXIBILITY: DCC manages its staff and administers projects with efficiency and flexibility equal to that of the private sector.

VALUE: DCC has consistently provided cost-effective solutions to DND's technical needs and maintains low overhead costs in providing its services.

2.2 OPERATING STRUCTURE

DCC's Head Office is located in Ottawa. The Corporation maintains five regional offices (Atlantic, Quebec, Ontario, Western and National Capital Region), and 38 site offices located at CF bases, wings or area support units. In addition, DCC maintains remote offices in the Arctic as required for the DEW Line Clean-Up and overseas in support of CF deployments.

3.0 STRATEGIC INITIATIVES

DCC's Corporate Plan is structured into five planning themes—business management, service delivery, people, strategic management and leadership, and corporate governance and stakeholder relationships—that inform the organization's strategic initiatives.

The following is a summary of DCC's progress in 2010–11 with respect to initiatives identified under these themes.

THEME	BUSINESS MANAGEMENT
OBJECTIVE	To maintain efficient business management structures, tools and practices.
INITIATIVE	DCC will continue its implementation of the new records and document management systems and tools.

In the first half of 2010–11, the initial phase of tactical work began on this initiative, following the completion of a project implementation plan in 2009–10. Business units completed the preparatory work required to enable a standard, shared corporate document management system. This work included organizing current content and preparing files for transfer to the new system. This step provides the foundation for the integrity of the tool and, subsequently, efficient implementation of the corporate-wide electronic system. Additionally, DCC completed three procurement phases: request for information (RFI), request for proposal (RFP) and contract award. During the second half of 2010–11, DCC's Information Technology (IT) Department addressed the customization of the software solution at the departmental business plan level, while all DCC business units developed and approved their individual work flow and file structure requirements, thus preparing the stage for the phase rollout, which is to begin in the new fiscal year.

INITIATIVE	DCC will realign the corporate enterprise resource planning (ERP) solution.

The design of DCC's existing ERP system, in place for the past 15 years, needed to be reviewed in light of the Corporation's continued growth and DCC's increased dependence on the ERP system. This system was originally intended to provide solutions for financial management but was stretched to support some of the needs of the Human Resources and Contract Services departments. By enhancing the ERP experience, the Corporation should be in a position to meet future technical operational needs as they arise. In the second half of 2010–11, DCC continued to prepare the existing ERP system for an upgrade. As the year came to a close, the new hardware and software had been successfully installed. The project team can now focus on defining, developing and implementing the upgrade requirements, while not disturbing the existing ERP system, so that the team can meet the project completion deadline of March 2012.

THEME	SERVICE DELIVERY
OBJECTIVE	To ensure client requirements are met.
INITIATIVE	DCC will undertake an optimization review of its processes and practices using the recommendations from DCC's industry survey and follow-up consultations.

In 2009, the Corporation solicited feedback from the architectural, engineering and construction industries. The aim was to identify barriers to effective partnerships in the delivery of defence projects, as well as to gather suggestions for improving DCC processes, procedures and practices to foster industry interest in defence business opportunities. This survey very positively supported DCC's process, but respondents also made valuable suggestions. For example, consultations with the Association of Consulting Engineering Companies-Canada and the Royal Architectural Institute of Canada resulted in further refinements to DCC's procurement and contract documents. As well, a review was undertaken of a quality-based selection approach for DCC consulting procurements and consideration of a DND-DCC fee guideline.

THEME	PEOPLE
OBJECTIVE	To maintain a skilled, professional and motivated workforce to meet business requirements.
INITIATIVE	DCC will act on the recommendations from its recruitment and retention strategy.

Three recommendations from the recruitment and retention strategy relate to an employee engagement survey, the employer brand initiative and the development of a competency-based performance management system.

Last year, DCC administered an employee engagement survey. Senior management analyzed the results and developed an action plan to address employee needs. The survey indicated that employees want more information about DCC's strategic direction. Consequently, in 2010–11, senior management initiated a major communications effort across the company, where all managers discussed DCC's vision and strategic direction with their employees. Not only did this give the employees the information they requested; it was also an exercise to help managers act as corporate communicators.

The implementation of the employer brand project continues. The second quarter saw the launch of new career fair materials in two regions to meet immediate recruitment needs. In the second half of the year, DCC continued to roll out external recruitment materials—including an updated career website—in the other regions. During the fourth quarter, the Corporation focused on internal awareness products and on tools aimed at retaining employees and promoting the internal profile. Distributing a new series of employee posters to all sites helped DCC promote its culture, values and brand internally.

In the first half of 2010–11, senior management reviewed the requirements for developing a competency-based performance management program. The Human Resources Department engaged a consultant to help define values-based competencies that drive the organization and contribute to an effective, performance-based management system linked to recruitment, performance, training and development, and succession planning.

A concept was completed in March 2011 that included findings and recommendations for a competencies framework.

INITIATIVE	DCC will promote innovation through the Ideas@Work initiative.

A year ago, DCC revisited its Ideas@Work initiative to encourage employees to collaborate and to share new ideas throughout the Corporation. A new working committee developed an implementation plan and a communications plan. To promote the Ideas@Work initiative, the committee created an intranet website, publicized employee champions and published success stories in the DCC employee newsletter, and formally launched Ideas@Work Month.

In March 2010, DCC conducted a survey to measure the level of engagement with the Ideas@Work initiative. It found that 78% of survey participants believe Ideas@Work will help DCC be a better organization, and 73% feel the program fosters communication and encourages employees to share their great ideas. By year end, regions were tracking 58 site-initiated ideas, three of which were being addressed at the national level, and DCC had recognized seven employees for their contributions. The success of these activities is a good indicator of the change in the way DCC recognizes the concept of innovation.

THEME	STRATEGIC MANAGEMENT AND LEADERSHIP
OBJECTIVE	To provide strong, ethical and effective leadership for the Corporation.
INITIATIVE	DCC will review its management structure and management practices.

DCC's volume of work and revenue has doubled over the past five years. The Corporation identified an initiative to ensure that the day-to-day management structure suited this much larger organization. Together with the Board of Directors, senior management reviewed accountabilities, organization and workflow. Several changes came from this review. The National Operations Group (NOG) evolved into the National Capital Region (NCR) and adopted a full regional business structure. The NCR provides support for DND national program requirements based in Ottawa, as well as technical support associated with these programs to DCC service lines across the country. In summer 2010, the Director General Military Engineering (DGME) and DCC opened a new joint program management office in Ottawa to integrate staff and processes to improve productivity and service delivery.

DCC enhanced its service delivery matrix, based on developments that occurred during the course of business with the client over the past several years. These enhancements include administrative changes, leadership training and clearer accountabilities for client maintenance. Business managers were put in place in all regions and a business operations committee was formed to ensure that processes and procedures are developed in a coordinated way.

THEME	CORPORATE GOVERNANCE AND STAKEHOLDER RELATIONSHIPS
OBJECTIVE	To be recognized as competent and responsive to government priorities, policies and practices.
INITIATIVE	DCC will continue to implement International Financial Reporting Standards.

The Corporation's first financial statements that comply with International Financial Reporting Standards (IFRS) will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information is to be provided for the year ending March 31, 2011. DCC effectively moved to IFRS on April 1, 2010, and will prepare the first IFRS-compliant statement for the first quarter of 2011–12. The Office of the Auditor General (OAG) will provide its review of the one-year comparative statement for March 31, 2011, in summer 2011. DCC became fully IFRS compliant on April 1, 2011.

INITIATIVE	DCC will continue to focus on industrial security to refine and enhance processes and further develop strong security awareness.

Developing security awareness among DCC employees is an ongoing process and efforts in that area continued throughout 2010–11. Activities included a monthly campaign of security reminders to employees, security forums and online security training. In the latter part of the year, the Corporation continued to refine its internal security processes and procedures for the management of security requirements in contracts, and partnered with DND and the Canadian Industrial Security Directorate. Given the success of the employee awareness efforts, the 2011–12 action plan is focused on industrial security activities. DCC follows a corporate security plan and senior management briefs the Board of Directors regularly on its progress.

INITIATIVE	DCC will review current practices of its Board of Directors related to approval of corporate matters.

DCC examined the practices of 40 Crown corporations in two key areas: the delegation of authority from the Board of Directors to the President and CEO; and the types of corporate policies that boards of directors and their committees review and approve. Of these, the practices of Crown corporations that had won reporting awards from either the OAG or the Chartered Accountants of Canada/Canadian Institute of Chartered Accountants were considered to be good benchmarks, so they received more in-depth consideration.

DCC decided that the delegation of authority between DCC's Board of Directors and the President and CEO should be codified. To that end, in the second quarter of 2010–11, the Governance and Human Resources Committee reviewed a formal delegation of authority process and recommended it for approval; the Board of Directors approved it in the third quarter of 2010–11.

In 2010–11, DCC conducted a comparative analysis of the charters or terms of reference of the audit committees of 10 other Crown corporations in order to assess the appropriateness of the Charter of DCC's Audit Committee. The Audit Committee used the results of this analysis, as well as the TBS *Guidelines for Audit Committees of Crown Corporations and Other Public Enterprises*, to review the Charter. The revised Charter, which was finalized in the fourth quarter of 2010–11 and was approved by the Board at its March 2011 meeting, may be found at www.dcc-cdc.gc.ca.

4.0 STRATEGIC AND OPERATIONAL PERFORMANCE INDICATORS

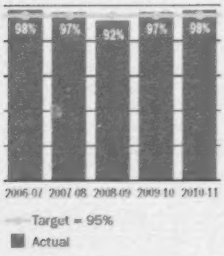
4.1 SERVICE DELIVERY

Completing each project or task to the satisfaction of the Client-Partner is critical to the success of DCC operations. To this end, the Corporation tracks client satisfaction through a service delivery rating system as one of its key performance indicators. DCC interviews representatives of our Client-Partner individually, in person, once a year. Each representative has the opportunity to comment on the service DCC provided on all projects in which he or she was involved.

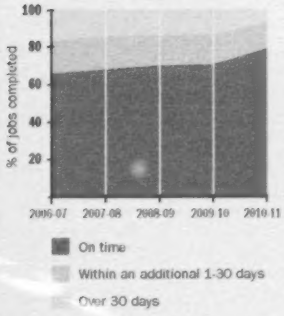
In 2010–11, DCC conducted service delivery ratings with 265 representatives. Scores are weighted according to the value of each service level arrangement (SLA). Service delivery ratings are based on a scale of one to five. A score of three means DCC met expectations and a score of four or five means DCC surpassed expectations. During 2010–11, 98% of clients indicated DCC met or exceeded their expectations.

DCC considers all feedback received during this process and takes swift action where required, especially when a client gives DCC a score of less than three. Each year, DCC receives a range of feedback. In 2010–11, there were no consistent areas of concern.

Client satisfaction



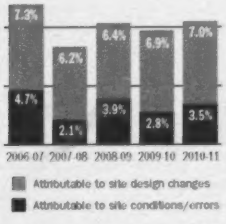
Timeliness of construction contract completions



TIMELINESS OF CONSTRUCTION CONTRACT COMPLETION

Timely completion of projects is a key component of client satisfaction. DCC monitors the timeliness of construction contract completion, and works with clients and contractors to minimize schedule slippage. When slippage does occur, DCC ensures that DND knows the reasons and takes all necessary action to ensure that the project is completed as quickly as possible, to minimize the impact on DND. In 2010–11, 79% of construction contracts were finished by the established contract completion date, another 14% were completed within 30 days of that date and 7% were completed thereafter.

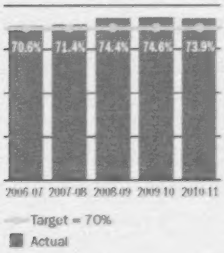
Change order values
Percentage of total awarded value



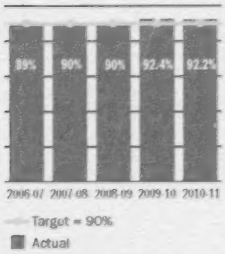
CHANGE ORDER VALUES

The change in total award value for 2010–11 was 10.5%, a slight increase from the figure of 9.7% in 2009–10. Of the 10.5% increase, 7.0 percentage points related to design changes and 3.5 percentage points related to site conditions. Although DCC does not set formal targets for this indicator, it tracks this information in order to inform the client and to help facility users manage schedule risks associated with construction.

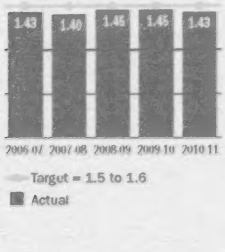
Utilization rate
Percentage of employee hours spent on contract work



Retention rate



Direct personnel expense multiplier



4.2 UTILIZATION

The utilization rate indicates the hours directly spent on service delivery functions that are billable to the client, as opposed to administrative functions that are considered overhead support. It is an important performance indicator for efficiency and effectiveness and is a key financial management tool. DCC's target utilization rate is 70%. In 2010–11 the Corporation achieved an actual utilization rate of 73.9%, a slight decrease from the previous year's rate of 74.6% but well above the targeted rate. This is in keeping with DCC's achievement for the past several years in surpassing its target utilization rate.

4.3 RETENTION RATE

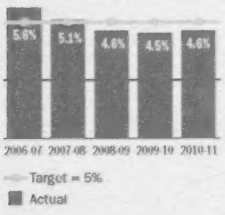
DCC's success depends on its ability to maintain a skilled, professional and motivated workforce to meet business requirements. To that end, it is critical to recruit and retain the types of employees needed to guarantee a high level of client service. It is normal for DCC to experience some level of turnover of staff, due to the seasonal and geographically cyclical nature of its work. In 2010–11, DCC exceeded its retention rate target of 90% to reach 92.2%. DCC has met or surpassed its target for the past four years—in 2009–10, it reached 92.4%; and in 2008–09 and 2007–08, it met the target of 90%.

4.4 DIRECT PERSONNEL EXPENSE MULTIPLIER

The direct personnel expense multiplier (DPEM) is the factor by which DCC multiplies direct project personnel expenses to recover overhead costs. These project personnel expenses include salary costs, payroll benefits and compensated absences, such as vacation, sick days, holidays and professional development time. The target range for this indicator is between 1.50 and 1.60. With increased business volumes, the Corporation has been able to minimize billing rate increases over the past several years while still generating sufficient funds to meet its operating needs. As a result, the DPEM has remained below the targeted range in recent fiscal years. In 2010–11, the multiplier was 1.43.

Given its recent operating results, DCC believes that a new target range for the DPEM multiplier is appropriate. As such, it has established its new target range to be between 1.40 and 1.50. Therefore, in future years commencing in fiscal 2011–12, this key performance indicator will be tracked and reported against this target.

Professional development to salary cost ratio



4.5 PROFESSIONAL DEVELOPMENT TO SALARY COST RATIO

DCC's ability to serve DND is heavily dependent on the skills of its employees and maintaining a skilled and professional workforce is a key corporate objective. Therefore, the training and development of its employees continues to be a high corporate priority and a key area of investment of resources. In 2009–10, DCC developed a new performance indicator for training and development based on the total annual investment in professional development, defined as the combination of direct expenditures and the cost of staff time spent on training and development activities, expressed as a percentage of total salary cost. On this basis, DCC established an overall corporate target for spending on training and development of 5% of salary costs. In 2010–11, the actual percentage was 4.6%, above the 2009–10 percentage of 4.5% but slightly below the 5% target. The actual rate achieved may vary from year to year, depending on the effort expended to develop and maintain the internal course curriculum.

4.6 SUCCESSFUL CONTRACTS

DCC recognizes the time and effort that the industry expends to prepare and submit tenders. Consequently, to reduce the risk of a failed tender, DCC screens all projects for bidability. At year end, 95.4% of DCC tender calls had resulted in the award of a contract. This figure exceeds the 2009–10 percentage of 93.4% by 2.0 percentage points; it also exceeds the figures of 95% in 2008–09, 95.1% in 2007–08 and 94.7% in 2006–07. The most frequent reason why a tender does not result in a contract is that the tender price exceeds the approved budget amount.

4.7 LEGAL CLAIMS

DCC's efforts to resolve contract disputes are reflected in the low number and value of contract claims before the courts. In 2010–11, five claims were settled for a total value of $235,342. As at March 31, 2011, there were 11 ongoing claims, including two under appeal, with a total value of $7,860,687, compared with 14 ongoing claims with a total value of $7,635,276 at March 31, 2010.

In accordance with the memorandum of understanding (MOU) between DCC and DND, DND accepts the legal and financial risk associated with claims resulting from third-party contracts put in place by DCC. Thus, the financial risk associated with settling contractual claims does not have any financial impact on DCC.

5.0 RISK MANAGEMENT

Under the direction of the Board of Directors, senior management has established a comprehensive risk management framework within DCC's general management framework. The framework identifies the risks associated with DCC's environment and its main business activities, evaluates the probability and potential impact of risk occurrence, and defines mitigation measures to avoid or minimize risk. The framework is integrated into the Corporation's strategic planning process to ensure high-risk areas receive special consideration in the planning exercise, particularly with respect to establishing priorities and allocating resources.

The Risk Management Committee, composed of the President, Senior Vice-President and Vice-Presidents, establishes the overall risk mitigation strategy. The management team is responsible for implementing actions that will mitigate risks while promoting awareness of risk management among employees. Sound risk management practices are embedded in DCC's corporate culture. Staff members are expected to identify risks and deal expediently with issues and problems. Quarterly, site offices identify and report potential risks to regional offices. The regions evaluate and deal with these areas of concern, forwarding those considered to have a region-wide impact to the Vice-Presidents for their review. Risks that are considered corporate-wide are reviewed by the Executive and forwarded to the Board of Directors semi-annually.

When necessary, employees ask senior managers for guidance and assistance regarding operating risks. DCC balances risks with the need to provide a high level of timely operational support to DND and the CF. DCC's risk management approach includes sound business process documentation, as well as effective and efficient levels of delegation of authority, supported by speedy communication up the chain of command.

5.1 ENVIRONMENTAL RESPONSIBILITIES

To mitigate DCC's impact on the environment, DCC's Board of Directors and senior management group are committed to the principles of sound environmental stewardship. The Corporation's operational policies and procedures are designed to minimize environmental impacts on all work sites and to specify the significance of environmental incidents that employees must report.

Three such incidents that arose from activities of DCC or its contractors were reported in 2010–11.

- The first such incident reported was a diesel fuel leak from a storage tank fuel line at the CAM-5 DEW Line Clean-Up project site. The contractor siphoned up the leaked product, removed affected snow and soil, and coordinated confirmatory soil sampling to verify the clean-up results.
- The second incident reported related to the improper disposal of asbestos waste by a contractor responsible for an asbestos removal project. The Investigations and Enforcement Branch of the Ontario Ministry of the Environment continues to investigate this incident.
- The third incident reported was a diesel fuel spill from an excavator used in the cutting and mulching of trees. The excavator caught fire, possibly due to the fuel leak, which resulted in an electrical short circuit. Although the excavator was destroyed, the spill was contained and an emergency clean-up with confirmatory soil sampling was done.

DCC employees reported all three incidents in a timely and appropriate way. No such reportable environmental incidents occurred in 2009–10 or 2008–09.

DCC continues to implement environmental incident reporting criteria that are harmonized with DND's criteria for spill reporting.

5.2 MAINTAINING A SAFE WORK ENVIRONMENT

Occupational health and safety are primary concerns at DCC, and the Corporation invests in safety-related communications and training. Highlights of the progress of DCC's safety program in 2010–11 included the ongoing revision of health and safety policies and processes, and improvements to the internal audit process to ensure consistent application of, and reporting on, the workplace safety program. DCC reviewed the health and safety program in the fall and is now optimizing the program as a result. Improving the internal health and safety audit process is the key to monitoring DCC's performance.

The number of lost-time injuries increased from two in 2009–10 to five in 2010–11. These five injuries accounted for 28 days of lost time, an increase from seven days from the previous fiscal year. However, accidents that occurred in 2008–09—primarily, one major incident—accounted for 260 days (1,950 hours) of lost time in 2010–11.

6.0 FINANCIAL PERFORMANCE

6.1 REVENUE

SERVICES REVENUE

Services revenue for all service lines combined was $93.6 million in 2010–11, an increase of $3.9 million or approximately 4% from the previous year. Approximately 2 percentage points of the increase related to the overall rise in business activity due to higher demand for services and approximately 2 percentage points related to the increase in billing rates.

CONSTRUCTION SERVICES REVENUE

Revenue from Construction Services, which represents 50% of total revenues from all service lines, increased in 2010–11 by 4% over the previous year, driven by a combination of higher business volume (about 2 percentage points of the increase) and higher billing rates (about 2 percentage points of the increase).

CONTRACT SERVICES REVENUE

Revenue from Contract Services increased during 2010–11 by 13% over the previous year, due mainly to an increase in contract services activity. The overall value of contracts that Contract Services awarded increased in 2010–11 over the previous year, as did individual contract values and the number of contracts awarded.

PROJECT AND PROGRAM MANAGEMENT SERVICES REVENUE

Project and Program Management Services revenue decreased by 9% in 2010–11, due to a realignment of projects from the Project and Program Management Services service line to the Real Property Management Services service line. Real Property Management Services is a newer service line and the realignment of revenue will continue in 2011–12.

ENVIRONMENTAL SERVICES REVENUE

Environmental Services revenue declined in 2010–11 by 2% over the previous fiscal year, driven by decreased demand for these services. The cyclical nature of DND's demand for these services has a direct impact on the revenue this service line generates from year to year.

REAL PROPERTY MANAGEMENT SERVICES REVENUE

Revenue from Real Property Management Services, which is an emerging service line, increased by 90% in 2010–11. That rise reflected a marked increase in demand for services related to facility and portfolio management, and the reclassification and consolidation of real property-type contract work from other service lines.

REVENUE, BY SERVICE LINE

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Construction Services	**$ 46,341**	$ 44,390	$ 1,951	4%
Contract Services	**9,857**	8,717	1,140	13%
Project and Program Management Services	**19,072**	20,888	(1,816)	-9%
Environmental Services	**12,281**	12,485	(204)	-2%
Real Property Management Services	**6,025**	3,174	2,851	90%
	$ 93,576	$ 89,654	$ 3,922	4%

INTEREST REVENUE

Interest revenue, which is generated from the Corporation's average current bank balance and from investments, increased in the year ended March 31, 2011, by $136,000 or approximately 186% over the previous fiscal year. This significant increase is due to a combination of factors. The average monthly cash balance during the fiscal year was higher: $16.6 million in 2010–11, compared with $11.9 million in the previous year. The average interest rate increased from 2.26% in 2009–10 to 3.02% in the year ended March 31, 2011. In addition, the Corporation invested excess funds of $9.6 million in investments yielding average returns of 4% beginning in the last quarter of 2010–11.

INTEREST REVENUE

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Interest revenue	**$ 209**	$ 73	$ 136	186%

6.2 EXPENSES

SALARIES AND EMPLOYEE BENEFITS

Salaries rose to $60.7 million in 2010–11, an increase of $2.8 million or approximately 5% over the previous fiscal year. Growth in the number of employees, due to higher levels of business activity, accounted for approximately 1 percentage point of the increase, whereas a combination of salary increases and employee mix accounted for the remainder.

Employee benefits rose to $18.8 million in 2010–11, an increase of $2.1 million or approximately 13% over 2009–10. This increase was largely related to the rise in salaries and to the higher cost of certain benefits, primarily those related to extended health care and pension plans. Rising benefits costs also contributed to the increase in employee benefits as a percentage of salary to 31%, an increase of about 2 percentage points over the previous year.

SALARIES AND EMPLOYEE BENEFITS

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Salaries	**$ 60,689**	$ 57,909	$ 2,780	5%
Employee benefits	**18,777**	16,643	2,134	13%
	$ 79,466	$ 74,552	$ 4,914	7%
Employee benefits as a percentage of salaries	31%	29%		

OPERATING AND ADMINISTRATIVE EXPENSES

Operating and administrative expenses were $8.3 million in 2010–11, an increase of $381,000 or approximately 5% over the previous year. A variety of factors influenced these expenses.

- Rent expenses increased by approximately 1%. DCC did not add any office space during the year; the increase is due to increases in base rent as per lease agreements and increased occupancy costs.
- Employee training and development costs increased by 9%, due to the rising number of employees. Expressed as a percentage of salary cost, the external costs for training and development activities in 2010–11 were 2%, which is consistent with the previous year.

- Professional services expenses declined by about 11%, due to decreased spending on consulting services related to the implementation of the human resources module of DCC's enterprise resource planning system.
- Telephone and data communications costs decreased by 3%. The decrease is due to realignment and consolidation of telephone and data communications costs at DCC offices.
- Travel costs rose by 12%. Employees travelled more, due to increased business activity and the development of service lines, compared with the previous year.
- Office services, supplies and equipment expenses increased by 15% because of a combination of rising prices, increased staff, new operating locations, and additional spending on supplies and equipment to improve physical security at DCC operating locations across Canada.
- Software maintenance costs rose by 195%, due to increased licensing fees for desktop productivity software for staff computers.
- Printing and stationery costs rose by 5%, due to a combination of increased staff, rising prices and increased business activity.
- Staff relocation costs decreased by approximately 31%. This significant decrease was the result of a drop in the number of staff relocations needed to address business requirements. In any given year, the level of relocation activity is not necessarily tied to the overall volume of business.
- Recruiting costs increased by 34%, due to higher use of print advertising in 2010–11. Such advertising, which has a higher per-posting cost than online advertising, was driven by the need to recruit for some key positions.
- Leased office equipment expenses increased by 8%, due to the rise in the number of operating locations.
- Client services and communications costs decreased by 34%, due to decreased spending on intranet enhancements and on strategic initiatives such as the employer brand exercise, and to the completion of projects related to the internal communications strategy.
- Office furniture and equipment costs decreased by 17%, due to slower growth in employee numbers compared with the previous year.
- Overall, computer hardware and software expenses—the amount not capitalized during the year—increased by 2%, which is consistent with the increase last year. In 2010–11, DCC disclosed computer hardware and software expenses separately for the first time. As a result, the operating and administrative expenses table shows the expenses for computer equipment decreasing by 41% (because software is no longer included in this figure) and the amount for computer software is being reported separately for the first time.

OPERATING AND ADMINISTRATIVE EXPENSES

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
	Actual	Actual		
Rent	**$ 2,136**	$ 2,109	$ 27	1%
Employee training and development	**1,334**	1,228	106	9%
Professional services	**1,051**	1,184	(133)	-11%
Telephone and data communications	**764**	788	(24)	-3%
Travel	**648**	579	69	12%
Office services, supplies and equipment	**585**	509	76	15%
Software maintenance	**582**	197	385	195%
Printing and stationery	**197**	187	10	5%
Staff relocation	**192**	279	(87)	-31%
Recruiting	**158**	118	40	34%
Leased office equipment	**155**	143	12	8%
Client services and communications	**115**	174	(59)	-34%
Office furniture and equipment	**102**	123	(21)	-17%
Computer equipment [1]	**60**	102	(42)	-41%
Computer software	**44**	–	44	n/a
Other	**183**	205	(22)	-11%
	$ 8,306	$ 7,925	$ 381	5%

(1) In 2009–10, this amount included both computer hardware and software expenses.

AMORTIZATION

Amortization increased by 3% or $26,000 in 2010–11, due to higher capital expenditures in the prior year and a change in calculating amortization in 2009–10. Capital expenditures for 2010–11 increased by $552,000 or 52% from the previous year. In 2009–10, DCC began calculating amortization on a monthly pro-rated basis, based on the month of acquisition. Previously, DCC took a full year of amortization in the year of acquisition, regardless of the month of purchase.

AMORTIZATION

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Amortization	**$ 965**	$ 939	$ 26	3%

6.3 NET INCOME AND COMPREHENSIVE INCOME

The net income and comprehensive income for the year ended March 31, 2011, was $5.0 million, compared with a net income and comprehensive income of $6.3 million in the previous year. The decline in operating results is due to a combination of factors, including an increase of 7% in the cost of salaries and benefits and 5% increase in operating costs, with a corresponding increase of only 2% in billing rates. The Corporation planned for the lower net income in 2010–11 when it set its billing rates for 2010–11 in response to DCC's profitability the previous year. This practice of managing profit margins is consistent with the Corporation's financial management policy, described in the next section, Liquidity and Capital Resources.

NET INCOME AND COMPREHENSIVE INCOME

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Net income and comprehensive income	**$ 5,048**	$ 6,311	$ (1,263)	-20%

6.4 LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL MANAGEMENT POLICY

The Corporation's financial management policy and financial statements assume that the Corporation is a going concern and that its stated mandate will continue for the foreseeable future. DCC's financial management policy is to generate sufficient cash to meet its anticipated operating and capital requirements, and to settle its financial obligations as they become due. In determining the amount of cash reserves carried for operating needs, the Corporation considers the risks inherent in its operations, particularly the risks associated with potential and unanticipated changes to the amount or timing of construction project expenditures by DND.

To fulfill its mandate and remain ready and able to serve its client at all times, the Corporation must constantly react to changing business conditions, and be able to financially support and sustain its operations when sudden or unanticipated business changes occur. As a result, the Corporation allows for reasonable levels of operating contingencies in determining the amount of cash reserves it carries.

Management constantly monitors and reviews cash levels to determine their appropriateness. Any surpluses or shortfalls that may occur occasionally are taken into consideration in formulating future business plans. In particular, cash surpluses judged to exceed operating requirements are returned to the client through the setting of billing rates for future services.

CASH AND INVESTMENTS

The Corporation does not have segregated cash reserves. When appropriate, cash that exceeds short-term operational requirements is invested in accordance with the investment policy approved by the Board of Directors.

The cash balance at March 31, 2011, was $12.8 million, a decrease of $4.7 million or 27% from the previous year. During 2010–11, the Corporation generated $6.4 million in cash from operating activities, spent $1.6 million on capital expenditures and invested $9.6 million. Cash and investments totalled $22.4 million.

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity. The Corporation currently invests in listed bonds, guaranteed investment certificates and high-interest savings accounts that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. It is the Corporation's intention to hold the investments to maturity.

DUE FROM RELATED PARTIES

On March 31, 2011, the amount due from related parties was $18.5 million, which represents an increase of $2.4 million or 15% over the previous year. The increase was due to a combination of two factors: higher revenues in the last month of 2010–11, compared with the previous year; and an increase in the average period that accounts were outstanding, which was 63 days at March 31, 2011, 8% longer than the average period in 2009–10.

CURRENT LIABILITIES

Current liabilities were $8.4 million at March 31, 2011, an increase of $254,000 or 3% from March 31, 2010. The variance is primarily attributable to two factors: an increase of $167,000 in the accrual amount associated with salary, vacation, furlough and overtime expenses, as a result of the growth in personnel; and a rise in the amount due to related parties and trade accounts payable, due to the increased level of business activity. Other factors that affect this balance from year to year include the amount of the current portion of employee future benefits and the timing of expenses (both the time expenses are incurred and the time they are paid).

LIQUIDITY AND CAPITAL RESOURCES

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Cash	**$ 12,789**	$ 17,493	$ (4,704)	-27%
Investments	**9,593**	–	–	n/a
Due from related parties	**18,526**	16,170	2,356	15%
Current liabilities	**8,400**	8,146	254	3%

6.5 PROVISION FOR EMPLOYEE FUTURE BENEFITS

The Corporation records a liability for the estimated cost of sick leave and severance, including health care benefits for its retirees. This estimate is actuarially determined. The accrued severance and other benefits balance as at March 31, 2011, was $18.6 million, an increase of $3.3 million or approximately 22% from the previous year. The balance increased by the amount of benefits accrued in the current fiscal year ($3.7 million) and decreased by the amount of benefits paid in the current year ($409,000). The provision for employee future benefits fluctuates from year to year due to a combination of factors, including the inflation rate; workforce changes; changes in

the discount rate, which is determined by reference to market interest rates; changes in the average rate of salary increases; and changes in the average expected remaining service lifetime of active employees, due to changing demographics. Note 8 to the financial statements describes the actuarial assumptions used in determining the provision. This liability is primarily a long-term one and the Corporation estimates the current payout amount based on the best information available. Although the Corporation has not specifically segregated funds for this obligation, it has sufficient capital resources to meet its employee future benefit payment obligations as they become due.

PROVISION FOR EMPLOYEE FUTURE BENEFITS

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Accrued benefit liability	**$ 18,631**	$ 15,332	$ 3,299	22%
Less: Current portion	**409**	235	174	74%
Long-term portion	**$ 18,222**	$ 15,097	$ 3,125	21%

6.6 CAPITAL EXPENDITURES

The Corporation's capital expenditures for 2010–11 totalled $1.6 million, an increase of $552,000 or 52% from the previous year. The increase was mainly due to higher spending for leasehold improvements and the purchase of software related to the implementation of the document management system. The Corporation also spent more on computer equipment to meet the needs of new employees and to update older information technology infrastructure.

CAPITAL EXPENDITURES

			CHANGE	
(in thousands of dollars)	**2010–11**	2009–10	$	%
Software	**$ 330**	$ 112	$ 218	195%
Computer equipment	**869**	679	190	28%
Furniture and equipment	**147**	218	(71)	-32%
Leasehold improvements	**270**	55	215	391%
	$ 1,616	$ 1,064	$ 552	52%

6.7 ACTUAL PERFORMANCE VERSUS PLAN

The following table compares the Corporation's actual performance in 2010–11 with the projections in the Corporate Plan.

Services revenue was $1.3 million or 1% below plan, due mainly to lower-than-planned business volume.

Interest revenue was $149,000 or 248% above plan. This variance was primarily due to a higher-than-planned cash balance and higher interest rates.

Salaries and employee benefits were $2.7 million or 3% lower than plan. This decrease was largely the result of lower-than-planned staff growth and lower-than-planned service requirements of the client.

Operating and administrative expenses were $1.2 million or 13% below plan. The decrease was largely due to lower-than-planned spending in areas such as training and development, relocation, travel, and professional fees.

Amortization was $595,000 or 38% lower than plan. Capital expenditures were lower than plan, which produced a lower amortization expense.

The significant variation in net income and comprehensive income compared with plan is the result of three major factors: a better gross margin rate; a decrease in operating and administrative expenses, expressed as a percentage of revenue; and lower amortization expenses.

Capital expenditures were $676,000 or 29% below plan, due to lower spending on leasehold improvements, office furniture and equipment.

ACTUAL PERFORMANCE VERSUS PLAN

	Actual	Plan		CHANGE
(in thousands of dollars)	**2010–11**	2010–11	$	%
Revenue				
Services	**$ 93,576**	$ 94,892	$ (1,316)	-1%
Interest	**209**	60	149	248%
	93,785	94,952	(1,167)	-1%
Expenses				
Salaries and employee benefits	**79,466**	82,153	(2,687)	-3%
Operating and administrative	**8,306**	9,537	(1,231)	-13%
Amortization	**965**	1,560	(595)	-38%
	88,737	93,250	(4,513)	-5%
Net income and comprehensive income	**$ 5,048**	$ 1,702	$ 3,346	197%
Capital expenditures	**$ 1,616**	$ 2,292	$ (676)	-29%

6.8 FUTURE ACCOUNTING

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises must prepare and report their financial statements using International Financial Reporting Standards (IFRS). As a result, IFRS will replace Canadian generally accepted accounting principles (CGAAP). The recently amended Public Sector Accounting Standards (PSA) defined DCC as an Other Government Organization. As such, DCC could have adopted either PSA or IFRS. Management concluded that adopting IFRS was the more appropriate choice for the organization, and the Corporation's Board of Directors and the Office of the Comptroller General approved this decision. The Corporation's first IFRS-compliant financial statements will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information must be provided for the year ending March 31, 2011. Consequently, DCC effectively moved to IFRS on April 1, 2010, the first day of the comparative period.

DCC is implementing IFRS in three phases.

PHASE ONE: PRELIMINARY SCOPING AND DIAGNOSTIC IMPACT ASSESSMENT

In April 2008, the Corporation completed the analysis to determine the potential impacts of adopting IFRS on the Corporation's financial statements, and to provide general guidance and direction to the Corporation on the adoption of and conversion to IFRS.

In addition, management and the financial staff responsible for maintaining accounting policies, financial records and financial statements have been increasing their competencies and knowledge of IFRS through training and self-study.

PHASE TWO: DETAILED ANALYSIS AND DESIGN

The Corporation has identified only a few areas of difference between IFRS requirements and DCC's existing CGAAP policies. The most significant ones relate to property, plant and equipment, employee future benefits, and leases.

As part of the detailed analysis, the Corporation has determined that converting to IFRS will have no significant impact on DCC's information technology and data systems, internal control over financial reporting, disclosure controls and procedures, and business activities.

PHASE THREE: EXECUTION

This phase involves applying the policy choices available under IFRS and made in Phase Two while preparing the financial statements. The Corporation has prepared an IFRS-compliant balance sheet as at April 1, 2010—the first day of the comparative period for IFRS reporting—for examination and audit by the Office of the Auditor General, in preparation for the first full year of IFRS reporting in 2011–12.

IMPACT OF IFRS ON THE 2011 FINANCIAL STATEMENTS

The following table outlines expected differences between IFRS and International Accounting Standards (IAS) requirements and DCC's existing CGAAP policies, along with their estimated directional impact on financial reporting in 2011–12 (and restated 2010 comparatives).

In situations where IFRS permitted choices, the Corporation selected those that management believed best reflected the Corporation's circumstances.

AREAS OF IMPACT

Standards	Comparison between CGAAP and IFRS	Preliminary findings
Property Plant and Equipment (IAS 16 and IFRS 1)	CGAAP: The historical cost model is required. Assets are recorded at cost upon initial acquisition and are amortized over their useful lives. IFRS: After initial recognition, there is the option to measure property, plant and equipment using the cost model or the revaluation (mark-to-fair-market value) model.	At initial conversion, under IFRS 1, the Corporation could choose to use historical cost as the basis of market value or to revalue assets to market value. Management chose to use historical cost as the open value under IFRS. After initial conversion, the Corporation will continue to use the cost model. This will have no impact on DCC's financial statements. IAS 16 does, however, require extensive additional disclosure in the financial statements.
Employee Future Benefits (IAS 19 and IFRS 1)	CGAAP: Gains and losses related to defined benefit obligations are recorded using the 10% corridor approach. IFRS: Gains and losses related to the revaluation of defined benefit obligations can be recorded using the 10% corridor approach or can be immediately recognized in other comprehensive income.	IFRS 1 permits the Corporation to reset the actuarial gains and losses to zero by recognizing the full amount in the retained earnings of the opening IFRS balance sheet. The Corporation has not made the final determination yet; however, DCC will likely use the exemption and reset actuarial gains and losses to zero. As for using the corridor method or immediate recognition under IAS 19, the Corporation will likely use the immediate recognition method and recognize actuarial gains and losses in other comprehensive income in the year it incurs them.
Leases (IAS 17)	CGAAP: Quantitative guidelines distinguish between operating leases and capital (financing) leases. Leases are treated as financing if, at the inception of the lease: • there is reasonable assurance that the lessee will obtain ownership of the asset at the end of lease term or if a bargain purchase option exists; • the lease term is 75% or more of the economic life of the assets; or • the present value of the minimum lease payments is 90% or more of the fair value of the lease asset at the inception of the lease. IFRS: There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination.	The Corporation has determined that there are instances where assets considered operating leases for CGAAP purposes may be treated as financing leases under IFRS. The Corporation is currently determining the net impact. If the lease is classified as a financing lease, that will increase the assets and liabilities in the opening IFRS balance sheet.

QUANTITATIVE IMPACT OF UNAMORTIZED AMOUNTS RELATED TO EMPLOYEE FUTURE BENEFITS

At the end of 2008–09, the unamortized actuarial gain was $626,735. At the end of 2009–10, it was $852,503, and it increased to $1,221,908 by the end of 2010–11. As permitted under IFRS 1, the Corporation decided to recognize the unamortized actuarial gain for employee future benefits in the year of transition and to eliminate the unamortized balance. The impact on the opening retained earnings of the comparative year, 2009–10, in the 2010–11 financial statements is $626,735. The impact on other comprehensive income for the comparative year, 2009–10, will be $225,768 to eliminate the unamortized actuarial gain related to employee future benefits. The impact on other comprehensive income for 2010–11 will be $369,405.

QUANTITATIVE IMPACT OF CHANGES IN LEASE CLASSIFICATION

Leases for office copiers were classified as operating leases under CGAAP. The treatment of these leases as operating leases did not affect the balance sheet, and payments were recorded as expenses as they were incurred. Under IFRS, these leases will be classified as capital leases and will be recorded as assets on the balance sheet. As a result, on the opening 2009–10 comparative statements, capital leases assets will increase by $469,820, accumulated depreciation will increase by $208,744, capital lease obligations will increase by $302,900 and retained earnings will decrease by $41,824. The adjustment to the 2010–11 statements for capital leases has yet to be determined.

6.9. FIVE-YEAR SUMMARY FINANCIAL INFORMATION

(in thousands of dollars)	**2010–11**	2009–10	2008–09	2007–08	2006–07
Revenue					
Services	**$ 93,576**	$ 89,654	$ 71,570	$ 55,458	$ 47,826
Interest	**209**	73	154	258	265
	$ 93,785	$ 89,727	$ 71,724	$ 55,716	$ 48,091
Expenses					
Salaries and employee benefits	**79,466**	74,552	60,069	49,343	42,592
Operating and administrative	**8,306**	7,925	7,130	6,228	5,845
Amortization	**965**	939	1,053	851	881
	88,737	83,416	68,252	56,422	49,318
Net income (loss) and comprehensive income (loss)	**$ 5,048**	$ 6,311	$ 3,472	$ (706)	$ (1,227)
Retained earnings, beginning of year	**13,169**	6,858	3,386	4,092	5,319
Retained earnings, end of year	**$ 18,217**	$ 13,169	$ 6,858	$ 3,386	$ 4,092

continued >

(in thousands of dollars)	**2010–11**	2009–10	2008–09	2007–08	2006–07
Assets					
Cash	**$ 12,789**	$ 17,493	$ 7,962	$ 6,135	$ 7,845
Investments	**9,593**	–	–	–	–
Accounts receivable, related parties, prepaids and advances	**19,871**	16,984	15,917	9,847	7,850
Property, plant and equipment	**2,216**	1,824	1,700	1,413	1,345
Intangible assets	**370**	111	110	116	250
	$ 44,839	$ 36,412	$ 25,689	$ 17,511	$ 17,290
Liabilities					
Accounts payable, related parties and accrued liabilities	**$ 7,991**	$ 7,911	$ 6,488	$ 4,112	$ 4,885
Provision for employee future benefits	**18,631**	15,332	12,343	10,013	8,313
	26,622	23,243	18,831	14,125	13,198
Capital stock and retained earnings					
Common shares	**–**	–	–	–	–
Retained earnings	**18,217**	13,169	6,858	3,386	4,092
	$ 18,217	$ 13,169	$ 6,858	$ 3,386	$ 4,092
	$ 44,839	$ 36,412	$ 25,689	$ 17,511	$ 17,290
Cash flows from (used in)					
Operating activities	**$ 6,563**	$ 10,595	$ 3,161	$ (925)	$ 1,543
Acquisition of property, plant and intangibles	**(1,616)**	(1,064)	(1,334)	(785)	(993)
Acquisition of investments	**(9,651)**	–	–	–	–
Increase (decrease) in cash during the year	**(4,704)**	9,531	1,827	(1,710)	550
Cash, beginning of year	**17,493**	7,962	6,135	7,845	7,295
Cash, end of year	**$ 12,789**	$ 17,493	$ 7,962	$ 6,135	$ 7,845

6.10 SUBSEQUENT EVENTS

In Section 4.7, DCC discussed the total value of legal claims as at March 31, 2011 of $7,860,687. There were 11 ongoing claims including two appeals.

After March 31, 2011, the Corporation received two additional claims, one personal injury claim of $5,000,000 and one in respect to contractual obligations of $40,863, for a total of $5,040,863. This brings the total number of claims to 13 ongoing claims valued at $12,901,550.

In accordance with the memorandum of understanding (MOU) between DCC and DND, DND accepts the legal and financial risk associated with claims resulting from third-party contracts put in place by DCC. Thus, the financial risk associated with settling contractual claims does not have any financial impact on DCC.

7.0 OUTLOOK

Providing cost-effective service, protecting the interests of the Crown and generating value for Canadians have always been key DCC goals. Employees at all levels of the Corporation are aware of the importance of adhering to Government of Canada spending practices, particularly in this time of fiscal restraint. The Department of National Defence will be continuing its strategic spending review in 2011–12. DCC stands ready to support DND throughout this review and any changes that arise from it.

In keeping with the *Canada First* Defence Strategy and Canada's Economic Action Plan, the federal government is expected to continue to invest in defence infrastructure over the next three years. DCC, with a mandate to be the contracting and construction management authority for Canada's defence projects, will continue to provide high-quality contracting, construction management and other related infrastructure services to DND and the CF.

The volume of DND's capital construction (including construction to support equipment acquisition) and environmental remediation programs is expected to remain high in 2011–12, with moderate increases in 2012–13. Funding for operations and maintenance is expected to return to 2008–09 levels in 2011–12 and then increase slightly in 2012–13. By 2013–14, DND's infrastructure investments are expected to reach a plateau, and the Corporation is prepared to adjust its operations accordingly. The flexibility and agility of DCC's business model allows it to manage any fluctuations in client demand quite readily.

DND's annual construction program spending has increased to over $800 million, and the client continues to turn to DCC to provide services beyond construction contract management. These types of services include project and program management support, real property management, and diverse and specialized environmental services. DCC will continue to respond directly to DND's changing requirements both at home and abroad. For example, in 2010–11 DCC supported military operations in Afghanistan by providing contracting and contract management for the Staff and Language Training Centre-Afghanistan (SLTC-A). The Corporation stands ready to support its Client-Partner through the anticipated withdrawal of Canadian troops from Afghanistan in the coming fiscal year. DCC's specialized expertise is also available to support any future DND requirements and priorities related to Canada's Northern Strategy or energy security.

To meet the challenges of the economic environment and to help the government meet its budgetary goals, DCC will promote human resources, information technology and service delivery initiatives to encourage employees to be innovative and to work together more efficiently and effectively. In addition, DCC has launched several corporate initiatives to optimize its processes and procedures, all with an eye toward cost efficiency. The Corporation is committed to collaborating with its Client-Partner to improve project and program management, establish joint program management offices and performance measures, and review project delivery procedures.

7.1 FINANCIAL OUTLOOK

The Corporation has traditionally taken a conservative approach to forecasting future growth. Its latest Corporate Plan shows an increase in revenue of approximately 9% for 2011–12, driven by a combination of anticipated higher business volumes and a planned increase in billing rates of approximately 1.25%.

For the remaining plan years, revenue has been forecast to increase by approximately 3% in 2012–13, and by 2% annually from 2012–13 to 2015–16. Business volume is expected to increase in 2011–12, then level off for the remaining fiscal years of the plan. These forecasts are all based on DND projections. Billing rates are expected to increase between 1% and 1.5% annually.

Salary and benefits expenses for 2011–12 are forecast to increase by approximately 12% from 2010–11. This rise is due mainly to inflation and to performance-based merit increases. The workforce is projected to expand by 8% in 2011–12, by 5% in 2012–13, and by 2% annually from 2013–14 to 2015–16.

Operating and administrative expenses for 2011–12 are projected to increase by 20% above those in 2010–11. This rise is due to a combination of inflationary increases, growing business volume, and higher projected spending on rent and certain discretionary expenses, such as employee training and development, maintenance costs, and telephone and telecommunications costs. For the remaining plan years, operating and administrative expenses are forecast to increase by 5% in 2012–13, and by 2% annually from 2013–14 to 2015–16. The increases in the later part of the plan are related to inflation.

Amortization is expected to increase by 24% in 2011–12 over 2010–11, due mainly to the projected rise in capital expenditures. Projections for capital expenditures, as discussed below, will affect the year-to-year fluctuation in the amortization expense over the remaining years of the plan.

A net income and comprehensive income of $1.8 million is forecast for 2011–12. In the remaining years of the plan, net income and comprehensive income is expected to decrease to a loss of between $761,000 to $840,000 for the remaining plan years.

Capital expenditures are projected to increase by 25% in 2011–12 over the previous year. The anticipated expenditures for the year ending March 31, 2012, will primarily relate to ongoing requirements to provide computers and software to new employees; to upgrade older computer systems and software; and to make leasehold improvements, and buy office furniture and equipment for new facilities, to accommodate the growing workforce. Decreased spending is projected for 2012–13 because DCC expects its workforce to grow more slowly, leading to fewer requirements to upgrade computers and software for employees. In the later years of the plan, the increases are related to anticipated life-cycle upgrades to the Corporation's main computer systems and software applications.

FINANCIAL OUTLOOK

(in thousands of dollars)	**2010–11 ACTUAL**	2011–12 PLAN	2012–13 PLAN	2013–14 PLAN	2014–15 PLAN	2015–16 PLAN
Revenue						
Services	**$ 93,576**	$ 102,085	$ 105,148	$ 107,251	$ 109,396	$ 111,584
Interest	**209**	200	210	221	232	244
	$ 93,785	$ 102,285	$ 105,358	$ 107,472	$ 109,628	$ 111,828
Expenses						
Salaries and employee benefits	**$ 79,466**	$ 89,285	$ 93,749	$ 95,624	$ 97,536	$ 99,487
Operating and administrative	**8,306**	9,982	10,481	10,638	10,798	10,960
Amortization	**965**	1,200	1,968	1,973	2,109	2,142
	$ 88,737	$ 100,467	$ 106,198	$ 108,235	$ 110,443	$ 112,589
Net income (loss) and comprehensive income (loss)	**$ 5,048**	$ 1,818	$ (840)	$ (763)	$ (815)	$ (761)
Capital expenditures	**$ 1,616**	$ 2,019	$ 1,658	$ 2,000	$ 2,000	$ 2,500

MANAGEMENT RESPONSIBILITY STATEMENT

The management of the Corporation is responsible for the performance of the duties delegated to it by the Board of Directors. These include the preparation of an Annual Report and the production of its contents, together with the financial statements. These statements, approved by the Board of Directors, were prepared in accordance with Canadian generally accepted accounting principles using management's best estimates and judgements where appropriate. Financial and operating information appearing in the Annual Report is consistent with that contained in the financial statements.

Management relies on internal accounting control systems designed to provide reasonable assurance that relevant and reliable financial information is produced and that transactions comply with the relevant authorities.

Management also maintains financial and management control systems and practices designed to ensure the transactions are in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and bylaws of the Corporation. These systems and practices are also designed to ensure that assets are safeguarded and controlled and that the operations of the Corporation are carried out effectively. In addition, the Audit Committee, appointed by the Board of Directors, oversees the internal audit activities of the Corporation and performs other such functions as are assigned to it.

The Corporation's external auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

James S. Paul
President
and Chief Executive Officer

Angelo Ottoni
Vice-President, Corporate Services,
Chief Financial Officer and Treasurer

June 13, 2011

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Public Works and Government Services

Report on the Financial Statements

I have audited the accompanying financial statements of Defence Construction (1951) Limited, which comprise the balance sheet as at 31 March 2011, and the statement of operations and comprehensive income, statement of retained earnings and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

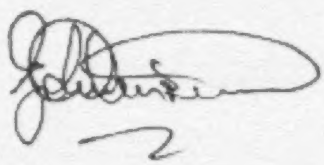
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Defence Construction (1951) Limited as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, Canadian generally accepted accounting principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Defence Construction (1951) Limited that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Defence Production Act*, the *Canada Business Corporations Act* and the articles and by-laws of Defence Construction (1951) Limited.



John Wiersema, FCA
Interim Auditor General of Canada

13 June 2011
Ottawa, Canada

DEFENCE CONSTRUCTION (1951) LIMITED

BALANCE SHEET

As at March 31, 2011

(in thousands of dollars)		2011		2010
ASSETS				
Current				
Cash	$	**12,789**	$	17,493
Investments (note 5)		**685**		–
Due from related parties (note 9)		**18,526**		16,170
Prepaids, advances and accounts receivable		**1,345**		814
		33,345		34,477
Investments (note 5)		**8,908**		–
Property, plant and equipment (note 6)		**2,216**		1,824
Intangible Assets (note 7)		**370**		111
	$	**44,839**	$	36,412
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	**5,675**	$	7,652
Due to related parties (note 9)		**2,316**		259
Current portion - provision for employee future benefits (note 8)		**409**		235
		8,400		8,146
Provision for employee future benefits (note 8)		**18,222**		15,097
	$	**26,622**	$	23,243
SHAREHOLDERS' EQUITY				
Share capital				
Authorized - 1,000 common shares of no par value Issued - 32 common shares	$	**–**	$	–
Retained earnings		**18,217**		13,169
		18,217		13,169
	$	**44,839**	$	36,412

Commitments (note 10)

Contingencies (note 12)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Marc Ouellet
Director

Shirley McClellan
Director

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31, 2011

(in thousands of dollars)		**2011**		2010
Revenue				
Services (note 9)	$	**93,576**	$	89,654
Interest		**209**		73
		93,785		89,727
Expenses				
Salaries and employee benefits		**79,466**		74,552
Operating and administrative		**8,306**		7,925
Amortization of property, plant and equipment		**894**		828
Amortization of intangible assets		**71**		111
		88,737		83,416
Net income and comprehensive income	$	**5,048**	$	6,311

STATEMENT OF RETAINED EARNINGS

For the year ended March 31, 2011

(in thousands of dollars)		**2011**		2010
Retained earnings at beginning of year	$	**13,169**	$	6,858
Net income and comprehensive income		**5,048**		6,311
Retained earnings at end of year	$	**18,217**	$	13,169

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

STATEMENT OF CASH FLOWS

For the year ended March 31, 2011

(in thousands of dollars)		**2011**		2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income and comprehensive income	$	**5,048**	$	6,311
Items not requiring cash:				
Provision for employee future benefits		**3,760**		3,400
Amortization of property, plant and equipment		**894**		828
Amortization of intangible assets		**71**		111
Amortization of investment premiums		**58**		–
		4,783		4,339
Employee severance and other non-pension benefits paid		**(461)**		(411)
Increase (decrease) in non-cash working capital balances related to operations:				
Due from related parties		**(2,356)**		(828)
Prepaids, advances and accounts receivables		**(531)**		(239)
Accounts payable and accrued liabilities		**(1,977)**		1,865
Due to related parties		**2,057**		(442)
		(2,807)		356
Net cash flows provided by operating activities		**6,563**		10,595
CASH FLOWS USED IN INVESTING ACTIVITIES				
Acquisition of investments		**(9,651)**		–
Acquisition of property, plant and equipment		**(1,286)**		(952)
Acquisition of intangible assets		**(330)**		(112)
		(11,267)		(1,064)
(Decrease) increase in cash during the year		**(4,704)**		9,531
Cash at beginning of the year		**17,493**		7,962
Cash at end of the year	$	**12,789**	$	17,493

The accompanying notes are an integral part of these financial statements.

DEFENCE CONSTRUCTION (1951) LIMITED

NOTES TO FINANCIAL STATEMENTS

March 31, 2011

1. AUTHORITY AND OBJECTIVE

Defence Construction (1951) Limited (the "Corporation") was incorporated under the *Companies Act* in 1951 pursuant to the authority of the *Defence Production Act* and continued under the *Canada Business Corporations Act*. The Corporation is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. Since 1996, responsibility for the Corporation has rested with the Minister of Public Works and Government Services. The Corporation is not subject to income taxes.

The mandate of the Corporation is to provide procurement, construction, professional, operations and maintenance services in support of the defence of Canada. The prime, but not exclusive, beneficiary of the Corporation's services has always been the Department of National Defence. Other government departments and agencies who play a role in Canada's defence may also avail themselves of these services. Revenue is generated from fees charged for specific services provided.

2. ADOPTION OF NEW ACCOUNTING STANDARDS AND FUTURE ACCOUNTING CHANGES

FUTURE ACCOUNTING CHANGES

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises must prepare and report their financial statements using International Financial Reporting Standards (IFRS). As a result, IFRS will replace Canadian generally accepted accounting principles (Canadian GAAP). The Corporation's first IFRS compliant financial statements will be those for the year ending March 31, 2012. However, one year of comparative IFRS financial information must be provided for the year ending March 31, 2011.

To prepare for the conversion to IFRS, the Corporation engaged an independent international accounting firm in April 2008 to analyze the potential impacts of adopting IFRS on the Corporation's financial statements, and to provide general guidance and direction to the Corporation on the adoption of and conversion to IFRS.

The Corporation has made a preliminary assessment of the impact of adopting IFRS. The work completed to date indicates that the differences identified are not expected to have a material impact on the Corporation's reported results and financial position but are likely to affect the type and amount of information that will be disclosed in the notes to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed in the preparation of these financial statements are summarized below.

> CASH

Cash consists of funds held in one bank account.

> INVESTMENTS

Investments consist of non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivable. The Corporation currently holds listed bonds, guaranteed investment certificates and high interest savings accounts that are recorded at cost and amortized using the effective interest method. The investments held are consistent with the policy approved by the Board of Directors. Interest income is accrued when receivable and included in income for the year.

> DUE FROM RELATED PARTIES, ADVANCES AND ACCOUNTS RECEIVABLE

Due from related parties, advances and accounts receivable are stated at amortized cost, which approximates fair value, given the short dated nature of these financial assets.

> PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of leasehold improvements, equipment (which includes furniture) and computers (which includes hardware and software integral to the hardware). The estimate of the useful life of property, plant and equipment is reviewed on a regular basis and revised where appropriate. In 2011, the Corporation has reviewed the useful life of computers and revised the amortization rate for newly acquired computers from 3 years to 3 to 5 years. These assets are amortized on a straight-line basis as follows:

Equipment	5 years
Computers	3 to 5 years
Leasehold improvements	Shorter of the lease term or useful life

In the year of acquisition, amortization is recognized starting the month of acquisition.

> INTANGIBLE ASSETS

Intangible assets consist of software and implementation costs. The estimate of the useful life of intangible assets is reviewed on a regular basis and revised where appropriate. In 2011, the Corporation has reviewed the useful life of intangible assets and revised the amortization rate for newly acquired software from 3 years to 3 to 10 years. These assets are amortized on a straight-line basis.

In the year of acquisition, amortization is recognized starting the month of acquisition.

> FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments.

Financial instrument classification is as follows:

Cash	Held for trading
Investments	Held to maturity
Advances and accounts receivable	Loans and receivables
Due from related parties	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Due to related parties	Other liabilities

Held for trading – Held for trading financial assets are measured at fair value at the balance sheet date with changes in their fair value recorded in income.

Held to maturity – Held to maturity investments are measured at amortized costs using the effective interest method.

Loans and receivables – Loans and receivables are accounted for at amortized cost using the effective interest method.

Other liabilities – Other liabilities are recorded at amortized cost using the effective interest method and include all financial liabilities.

> EMPLOYEE FUTURE BENEFITS

Employees are entitled to specific severance and other non-pension benefits. The projected accrued benefit obligations are actuarially determined using the projected benefit method pro-rated on services (which incorporates management best estimates of expected salary escalation, retirement ages of employees and expected health care costs). The current year expense is comprised of current service cost during the year, imputed interest on the projected benefit obligation and the amortization of the actuarial gain/loss in excess of 10% of the benefit obligation over the average remaining service period of active employees.

> PENSION BENEFITS

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation to cover current service cost. Pursuant to legislation currently in place, the Corporation has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Corporation.

> REVENUE

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the service has been performed, the price to the recipient is fixed or determinable and collection is reasonably assured.

> MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimate in these financial statements is the provision for employee future benefits. Actual results could differ significantly from this estimate.

4. CAPITAL MANAGEMENT

The Corporation's objectives in managing capital are to safeguard the Corporation's ability to continue as a going concern and fulfill its stated mandate, generate sufficient cash to meet its anticipated operating and capital requirements and settle its financial obligations as they become due. There has been no change in the Corporation's objectives, policies or processes for managing capital from the prior year.

In determining the amount of cash reserves carried for operating needs, the Corporation considers the planning and operating risk inherent in its operations, particularly the risk associated with potential and unanticipated changes to the amount or timing of construction project expenditures by the Department of National Defence. Cash levels are constantly monitored and any surpluses or shortfalls that may occur from time to time during certain operating periods are taken into account in the determination of billing rates for future services. The Corporation's capital consists of its share capital and retained earnings.

5. INVESTMENTS

Investments consist of Canadian, provincial and corporate bonds with fixed interest rates between 3.27% and 4.75%, guaranteed investment certificates (GIC) with fixed interest rates between 1.2% and 1.65% and high interest savings accounts with variable interest rates. The maturity dates of the bonds vary from 2012 to 2020. The GIC and interest savings accounts are available on demand. The carrying amounts, measured at amortized cost and fair value of these financial assets are as follows:

(in thousands of dollars)	**2011**	2010
Carrying amount at amortized cost:		
Bonds	**$ 8,857**	$ –
Guaranteed investment certificates	**400**	–
High interest savings	**336**	–
	$ 9,593	$ –

(in thousands of dollars)	**2011**	2010
Fair value:		
Bonds	**$ 8,792**	$ –
Guaranteed investment certificates	**400**	–
High interest savings	**336**	–
	$ 9,528	$ –

(in thousands of dollars)	**2011**	2010
Current portion	**$ 685**	$ –
Long-term portion	**8,908**	–
	$ 9,593	$ –

6. PROPERTY, PLANT AND EQUIPMENT

(in thousands of dollars)			**2011**
	Cost	**Accumulated Amortization**	**Net**
Equipment	$ 1,910	$ 1,448	$ 462
Computers	2,898	1,751	1,147
Leasehold improvements	1,679	1,072	607
	$ 6,487	$ 4,271	$ 2,216

(in thousands of dollars)			**2010**
	Cost	**Accumulated Amortization**	**Net**
Equipment	$ 2,354	$ 1,833	$ 521
Computers	5,143	4,382	761
Leasehold improvements	1,409	867	542
	$ 8,906	$ 7,082	$ 1,824

7. INTANGIBLE ASSETS

(in thousands of dollars)				**2011**
	Cost	**Accumulated Amortization**		**Net**
Software	$ 4,092	$ 3,722	$	370

(in thousands of dollars)				**2010**
	Cost	**Accumulated Amortization**		**Net**
Software	$ 3,762	$ 3,651	$	111

8. PROVISION FOR EMPLOYEE FUTURE BENEFITS

> SEVERANCE AND OTHER NON-PENSION BENEFITS

The benefit plan is not funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation.

(in thousands of dollars)	**2011**	2010
Total provision for employee future benefits	**$ 18,631**	$ 15,332
Less: current portion	**409**	235
	$ 18,222	$ 15,097

(in thousands of dollars)	**2011**	2010
Projected accrued benefit obligation	**$ 17,943**	$ 14,479
Unamortized actuarial gains	**688**	853
Provision for employee future benefits	**$ 18,631**	$ 15,332
Current year's expense	**$ 3,760**	$ 3,400
Benefits paid during the year	**$ 461**	$ 411

The significant actuarial assumptions adopted in measuring the Corporation's severance and other benefit plans are as follows:

(in thousands of dollars)	**2011**	2010
Discount rate for projected benefit obligation	**5.50%**	5.75%
Average rate of general salary increases	**3.50%**	3.50%
Inflation rate	**2.50%**	2.50%
Assumed health care cost trend rate	**5.00%**	5.00%
Ultimate heath care cost trend rate	**5.00%**	5.00%
Year ultimate health care cost trend rate is reached	**2011**	2010
Uninsured Pensioner 1994 with mortality projections to year 2020 (UP94@2020) for 2011 and 2010.	**UP94@2020**	UP94@2020
Retirement age	**59**	59

The health care cost trend rate is assumed to exceed inflation by 2.5% per annum for future years.

The measurement date for the last actuarial valuation of the accrued benefit obligation was April 1, 2011. The next actuarial valuation is planned for April 2012.

> PENSION BENEFITS

Substantially all of the employees of the Corporation are covered by the Public Service Pension Plan (the Plan), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Corporation. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution. The general contribution rate effective at year end was 10.79% (2010 - 10.67%). Total contributions of $7,931,074 (2010 - $6,536,357) were recognized as expense in the current year.

The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of 2 per cent of pensionable services times the average of the best 5 consecutive years of earnings. The benefits are coordinated with Canada Pension Plan benefits and they are indexed to inflation.

9. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount which is the actual amount of the consideration given or received for the services provided. Substantially the entire Corporation's services revenue of $93,576,000 (2010 - $89,654,000) is generated from services provided to the Department of National Defence (DND). In the National Capital Region, Public Works and Government Services Canada manages DND facilities and provides funds to the Corporation to engage contractors to perform infrastructure services.

In accordance with a Memorandum of Understanding between DND and the Corporation, DND is to provide office accommodations free of charge to the Corporation's service delivery personnel at DND-owned bases and wings and at other locations. Where office space is not provided, and for the Corporation's service delivery personnel who cannot be accommodated at a DND owned facility, accommodation costs are recovered either as an out-of-pocket reimbursable disbursement or through the hourly billing rates established for the services provided.

Amounts due from and to related parties at the end of the year are as follows:

(in thousands of dollars)	**2011**	2010
Due from:		
Department of National Defence	**$ 18,467**	$ 16,105
Public Works and Government Services Canada	**59**	65
	$ 18,526	$ 16,170
Due to:		
Department of National Defence	**$ 4**	$ 5
Public Works and Government Services Canada	**2,309**	232
Canada School of Public Service	**3**	20
Public Service Commission of Canada	**–**	2
	$ 2,316	$ 259

The aging of related party receivables at the end of the year was:

(in thousands of dollars)	**2011**	2010
Current (<61 days)	**$ 18,384**	$ 16,094
Past due (61-120 days)	**116**	33
Past due (>120 days)	**26**	43

During the year the Corporation wrote-off $113 (2010 - $1,077) of amounts due from related parties primarily to account for invoicing corrections.

10. LEASE COMMITMENTS

The Corporation leases office space and copiers for its operations to meet client requirements. The Corporation has entered into leases for the co-location of DND and Corporation staff to carry out joint delivery of services. These co-location leases are recoverable from DND.

The future minimum annual lease payments are as follows:

Year ending March 31: *(in thousands of dollars)*			**2011**
	Corporation	**Co-location**	**Total**
2012	$ 2,203	$ 2,673	$ 4,876
2013	2,070	2,673	4,743
2014	1,580	2,673	4,253
2015	191	2,145	2,336
2016	122	62	184
	$ 6,166	$ 10,226	$ 16,392

11. FINANCIAL INSTRUMENTS

Financial instruments consists of cash, investments, due from and due to related parties, advances, accounts receivable, accounts payable and accrued liabilities.

FAIR VALUE

Due from related parties, advances, accounts receivable, accounts payable, accrued liabilities and due to related parties are primarily due on demand and non-interest bearing. The estimated fair value of these financial instruments approximates their carrying value due to their short-term nature.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument might not meet its obligations under the terms of the financial instrument. The carrying value of financial assets at March 31, 2011, is $18,526,000 (2010 - $16,170,000) and represents the Corporation's maximum exposure to credit risk. The Corporation does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial asset. The Corporation minimizes credit risk on cash by depositing the cash with only reputable and high quality financial institutions. The Corporation has no significant exposure to credit risk on accounts receivable as substantially all of the accounts receivable are due from the Government of Canada. With the exception of amounts due from the Department of National Defence and other government departments, there is no concentration of accounts receivable with any one customer. Based on historic default rates, the Company believes that there are no requirements for an allowance for doubtful accounts.

LIQUIDITY RISK

Liquidity risk is the risk that an entity will encounter difficulty in meeting its obligations associated with financial liabilities. The carrying value of financial liabilities at March 31, 2011, is $7,991,000 (2010- $8,146,000) and represents the maximum exposure of the Corporation. The Corporation manages its liquidity risk by monitoring and managing its cash flow from operations and anticipated investing activities. The liquidity risk is low since the Corporation does not have debt instruments and derives its cash flow from services offered to the Government of Canada. In addition, as at March 31, 2011, the Corporation's financial assets exceeded its financial liabilities by $32,508,000 (2010 - $25,517,000).

MARKET RISK

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and comprises three types of risk: currency risk, interest rate risk and other price risk. The Corporation's financial assets and liabilities are not exposed to fluctuations in currency market risks given their underlying nature and characteristics.

The Corporation is exposed to fluctuations in interest rates with respect to investments held. As at March 31, 2011, the majority of the investments, $9,593,000 (2010 - $0), are comprised of fixed interest-bearing assets. Fluctuations in the interest rate would affect the fair value of the assets; however it is management's intention to hold these assets until maturity. The Corporation has determined that the risk is not significant.

12. CONTINGENCIES

Letters of credit aggregating $0 (2010 - $50,000) in respect of contractual obligations are currently outstanding. The Corporation is currently involved in legal claims in respect of contractual obligations estimated at $7,860,687 (2010 - $7,635,276). Additionally, there are other unspecified amounts within some claims for which the obligations to the Corporation are currently not determinable. The final outcome of such claims is not determinable. In accordance with the terms of a Memorandum of Understanding (MOU) between the Corporation and DND, settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by DND, in the year of settlement. As a result of this MOU, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to legal claims.

13. SUBSEQUENT EVENTS

Subsequent to year end, the Corporation became involved in two legal claims, one in respect of personal injury estimated at $5,000,000 and one in respect to contractual obligations at $40,863 for a total of $5,040,863. In accordance with the terms of a MOU between the Corporation and DND, settlements resulting from the resolution of any existing and future legal claims in respect of contractual obligations will be entirely funded by DND, in the year of settlement. As a result of this MOU, and its assessment of risk, the Corporation does not consider it necessary to record any liabilities in its financial statements relating to legal claims.